

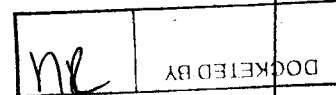


ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION

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DOCKETED
Arizona Corporation Commission

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WILLIAM A. MUNDELL
COMMISSIONER
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COMMISSIONER
KRISTIN K. MAYES
COMMISSIONER
GARY PIERCE
COMMISSIONER

IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. FOR THE ESTABLISHMENT
OF JUST AND REASONABLE RATES AND
CHARGES DESIGNED TO REALIZE A
REASONABLE RATE OF RETURN ON THE
FAIR VALUE OF THE PROPERTIES OF
UNS GAS, INC. DEVOTED TO ITS
OPERATIONS THROUGHOUT THE STATE
OF ARIZONA.

Docket No. G-04204A-06-0463

IN THE MATTER OF THE APPLICATION OF
UNS GAS, INC. TO REVIEW AND REVISE
ITS PURCHASED GAS ADJUSTOR.

Docket No. G-04204A-06-0013

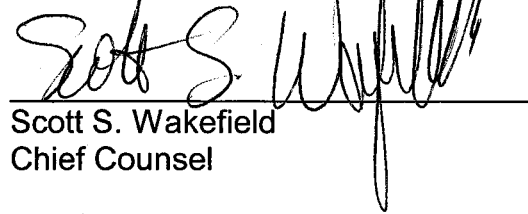
IN THE MATTER OF THE INQUIRY INTO
THE PRUDENCE OF THE GAS
PROCUREMENT PRACTICES OF UNS
GAS, INC.

Docket No. G-04204A-05-0831

NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing
the Direct Testimonies of Marylee Diaz Cortez, CPA; William A. Rigsby, CRRRA and
Rodney L. Moore in the above-referenced matter.

1 RESPECTFULLY SUBMITTED this 9th day of February 2007.

2
3
4 
Scott S. Wakefield
Chief Counsel

5 AN ORIGINAL AND SEVENTEEN COPIES
6 of the foregoing filed this 9th day
7 of February 2007 with:

8 Docket Control
9 Arizona Corporation Commission
10 1200 West Washington
11 Phoenix, Arizona 85007

12 COPIES of the foregoing hand delivered/
13 mailed this 9th day of February 2007 to:

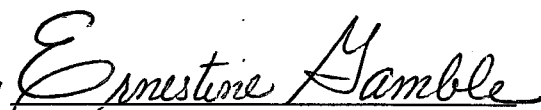
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UNS GAS, INC.

DOCKET NO. G-04204A-06-0463 et al.

DIRECT TESTIMONY

OF

MARYLEE DIAZ CORTEZ, CPA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 9, 2007

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1 **INTRODUCTION**

2
3 Q. Please state your name, occupation, and business address.

4
5 A. My name is Marylee Diaz Cortez. I am a Certified Public Accountant. I
6 am the Chief of Accounting and Rates for the Residential Utility Consumer
7 Office (RUCO) located at 1110 W. Washington, Phoenix, Arizona 85007.

8
9 Q. Please state your educational background and qualifications in the utility
10 regulation field.

11 A. Appendix I, which is attached to this testimony, describes my educational
12 background and includes a list of the rate case and regulatory matters in
13 which I have participated.

14
15 Q. Please state the purpose of your testimony.

16 A. The purpose of my testimony is to discuss certain issues pertaining to
17 operating income, rate base, and rate design and to present my
18 recommendations on these issues. RUCO witness Rodney L. Moore also
19 presents recommendations on these same ratemaking elements as well
20 as sponsors RUCO's overall revenue requirement recommendation.
21 RUCO witness William A. Rigsby presents recommendations regarding
22 cost of capital.

1 Q. Please describe your work effort on this project.

2 A. I obtained and reviewed data and performed analytical procedures
3 necessary to understand the Company's application as it relates to
4 operating income, rate base, and the Company's overall revenue
5 requirements. Procedures performed included the issuance of seven sets
6 of data requests, review of other parties' data requests, conversations with
7 Company personnel, and the review of prior ACC Decisions pertaining to
8 this Company.

9

10 Q. Please identify the exhibits you are sponsoring.

11 A. I am sponsoring Schedules MDC-1 through MDC-7.

12

13 **SUMMARY OF ISSUES**

14 Q. Please summarize the issues and recommendations you address in your
15 testimony.

16 A. I address the following issues in my testimony:

17 Rate Base

18 Citizens Acquisition Adjustment – This adjustment decreases rate base by
19 \$248,887 to restate the accumulated amortization of the acquisition
20 adjustment to reflect the current Commission authorized depreciation rate.
21 The Company has been amortizing the acquisition adjustment utilizing
22 rates that never were approved by the Commission.

1 Construction Work in Progress - This adjustment decreases rate base by
2 \$7,189,230 to remove CWIP balances that are not used and useful in the
3 provision of gas service.

4 Amortization of Geographic Information System (GIS) – This adjustment
5 removes expenses associated with a GIS from rate base. The Company
6 did not obtain an accounting order from the Commission allowing them to
7 establish a regulatory asset for these expenses.

8 Working Capital – This adjustment increases working capital by
9 \$1,200,152 and is necessary to correct an error the Company has
10 identified as well as to calculate the effect RUCO's recommended level of
11 expense has on cash working capital.

12 Operating Income

13 Amortization of GIS Expenses – This adjustment decreases operating
14 income by \$299,023 in amortization expense related to a regulatory asset
15 that was never established or approved by the Commission.

16 Fleet Fuel Expense – This adjustment increases operating income by
17 \$67,502 to correct certain errors the Company made in its calculation of
18 normalized fleet fuel expense.

19 Customer Annualization – This adjustment increases test year revenues
20 by \$110,006 to restate the Company revenue annualization using the
21 Commission-accepted methodology of utilizing the test year-end level of
22 customers.

1 Corporate Cost Allocation – This adjustment increases operating income
2 by \$12,765 to remove additional non-recurring merger expenses that the
3 Company failed to include in its adjustment.

4 Uncollectible Expense – This adjustment increases operating income by
5 \$95,583 to exclude the bad debt expense that the Company erroneously
6 included related to Griffith Plant revenue and to reflect RUCO's
7 recommended level of revenue.

8 CWIP Property Taxes – This adjustment increases operating income by
9 \$166,884 to remove the proforma property taxes the Company has
10 computed as attributable to its CWIP balances.

11 Out-of-Period Expenses – This adjustment increases operating income by
12 \$21,120 to remove accounting fees related to periods prior to the test
13 year.

14 Legal Expenses – This adjustment increases operating income by
15 \$311,051 to removes non-recurring legal expenses.

16 Other Issues

17 Changes to the PGA – This section discusses the Company's proposed
18 changes to its PGA and sets forth RUCO's recommendations.

19 Rate Design – This section discusses the Company-proposed rate design
20 modifications and the Company-proposed decoupling mechanism and
21 sets forth RUCO's recommendations.

22

23

BACKGROUND

Q. Please provide some historical background for this case.

A. UniSource Energy acquired the electric and gas operations of Citizens' Utilities in 2003 pursuant to a settlement agreement¹. The gas operations became known as UNS Gas, which is the subject of the instant case. UNS Gas' current rates and charges were authorized in the 2003 settlement agreement based on a 2001 test year.

RATE BASE

Rate Base Adjustment #3 – Citizens' Acquisition Adjustment

Q. Please discuss the Company's treatment of the negative acquisition adjustment it incurred when it acquired the gas properties of Citizens Utilities.

A. The required ratemaking treatment for the negative acquisition adjustment was part of the settlement agreement that was adopted in Decision No. 66028. The agreement required a permanent rate base credit of \$30,700,000 for the Gas Company. The agreement also required the Company to allocate the \$30.7 million reduction over its FERC plant accounts and to amortize these reductions using the depreciation rate applicable to each account.

¹ Decision No. 66028

1 Q. Is the Company's treatment of the Citizens' acquisition adjustment in
2 compliance with the requirements of the settlement agreement?

3 A. No, not entirely. The Company has not utilized its authorized depreciation
4 rates to amortize the acquisition adjustment. As discussed in the
5 testimony of Mr. Moore, the Company has not been depreciating its assets
6 with the Commission-authorized depreciation rates from Decision No.
7 58664. Likewise, it has used these same wrong depreciation rates to
8 amortize the acquisition adjustment.

9
10 Q. Have you made an adjustment to correct this error?

11 A. Yes. As shown on Schedule MDC-1, I have recomputed the accumulated
12 amortization of the negative acquisition adjustment using the Commission
13 authorized rates. This adjustment decreases rate base by \$248,887.

14

15 **Rate Base Adjustment #4 – CWIP**

16 Q. Is UNS Gas requesting the inclusion of its test year-end CWIP balance in
17 rate base?

18 A. Yes. The Company claims that this extraordinary treatment of CWIP is
19 warranted for it to maintain its financial integrity, to fund its rapid growth, to
20 mitigate regulatory lag, to make up for its large negative acquisition
21 adjustment, and to prolong the period between rate cases.

22

23

1 Q. Is this the accepted ratemaking treatment for CWIP?

2 A. No. Utility regulation routinely excludes CWIP from rate base because it
3 does not meet the used and useful ratemaking standard, which requires
4 that assets actually be in service and providing a benefit to ratepayers
5 before their inclusion in rates. Utility accounting already allows the accrual
6 of interest, in the form of an Allowance for Funds Used During
7 Construction (AFUDC), on the CWIP balances. These interest accruals
8 are ultimately recovered over the life of the asset once it enters service
9 through depreciation expense. Thus, rate base treatment of CWIP does
10 not change a utility's level of earnings, merely the timing of earnings
11 recovery.

12

13 Q. Are you aware of any instances where utility commissions have made an
14 exception to standard ratemaking treatment and included CWIP in rate
15 base?

16 A. Yes, but only as result of extraordinary circumstances. During the 1970's
17 and 1980's many utility commissions made an exception and allowed
18 CWIP in rate base. In most cases the exception was made due to the
19 drain on cash flow caused by construction of nuclear plants. Due to the
20 large outlays of cash required to build a nuclear plant coupled with the
21 very long lead time before such plants enter service, many utilities
22 became unable to service their debt due to lack of cash flows. The
23 inclusion of CWIP was considered an emergency measure as well as a

1 temporary measure. It historically has not been a routine ratemaking
2 mechanism.

3

4 Q. Do the reasons cited by the Company that warrant rate base treatment of
5 CWIP meet the "extraordinary circumstance" standard just discussed?

6 A. No. First, the Company's argument that CWIP in rate base is necessary
7 to maintain financial integrity is without merit. Other than in extraordinary
8 circumstances this Commission has never allowed CWIP in rate base and
9 Arizona utilities have not lost their financial integrity as a result. Likewise,
10 the Company's growth argument is without merit as growth has a positive
11 effect on the Company, generating more revenue and cash flow.
12 Regulatory lag always has been a characteristic of rate of return
13 regulation. It does not all of the sudden create a need to put CWIP in rate
14 base. Regulatory lag is a two way street that works both for and against
15 the Company. Types of regulatory lag that benefit the Company are plant
16 retirements, accumulated depreciation, and expired amortizations. In all
17 these instances the Company continues to earn a return on and recovery
18 of assets that have already been recovered. Thus, the notion that we
19 need to mitigate the regulatory lag that does not favor the Company, such
20 as the Company suggests in its CWIP in rate base argument, yet continue
21 to allow the effects of regulatory that do benefit the Company is clearly
22 biased. The Company's argument that CWIP in rate base will lengthen
23 the period between rate cases also has little merit. The Company

1 currently has no CWIP in rate base and even so it has been five years
2 since its last rate case in 2002. In fact no large Arizona utilities that I am
3 aware of have CWIP in rate base, yet these utilities are not filing back-to-
4 back rate cases. Further, in my experience the Commission has favored,
5 rather than disapproved of, utilities coming in for regular rate reviews.
6 Finally, the Company's argument that the large negative acquisition it
7 agreed to when it acquired Citizens gas properties now justifies the
8 inclusion of CWIP in rate base, is disingenuous at best.

9
10 Q. Why do you say this argument is disingenuous at best?

11 A. At the time of the settlement agreement, the Company touted the negative
12 acquisition as an attractive feature of the agreement that would provide
13 substantial benefits to ratepayers. Company witness, and then-UniSource
14 Vice President Steven Glaser stated the following in his testimony in that
15 proceeding:

16 A further benefit of the settlement is that Citizens' gas customers
17 will have use of approximately \$30.7 million of facilities and
18 Citizens' electric customers will have use of approximately \$93.6
19 million of facilities that they will never have to pay for because
20 UniSource has agreed not to seek recovery of the negative
21 acquisition adjustments.²
22

23 It is hardly appropriate to now use the benefit of the negative acquisition
24 adjustment as a reason to increase rates by including CWIP in rate base.
25
26

² Rebuttal Testimony of Steven Glaser, Docket No. E-01933A-02-0914, page 2.

1 Q. What adjustment are you recommending?

2 A. I have decreased rate base by \$7,189,231 to remove the Company-
3 requested CWIP balances.

4

5 **Rate Base Adjustment #5 – GIS Deferral**

6 Q. Please discuss the Company-proposed GIS Deferral adjustment.

7 A. The Company has expended \$897,068 on a Global Information System
8 (GIS) project. Under Generally Accepted Accounting Principles (GAAP)
9 such expenditures are consider expenses, and in recognition of the GAAP
10 requirements the Company expensed these costs on its income statement
11 during the test year. However, for ratemaking purposes the Company has
12 deferred these expenses and established a regulatory asset for which it
13 seeks rate base and amortization treatment.

14

15 Q. Can a regulated utility establish a regulatory asset of its own volition?

16 A. No. Pursuant to GAAP accounting SFAS 71 only the regulator of a utility
17 can establish a regulatory asset via the issuance of an accounting order
18 that provides reasonable assurance that the created asset will be
19 recovered.

20

21

22

1 Q. Has the UNS Gas' regulator established and approved a regulatory asset
2 for the Company's GIS expenses?

3 A. No. The Company has neither sought nor received approval from the
4 Commission for a regulatory asset related to GIS expenses.
5

6 Q. What adjustment are you recommending?

7 A. In the absence of a Commission-authorized accounting order, the
8 Company is required to expense these expenditures on its income
9 statement and cannot include them its it rate base to earn a return on. As
10 shown on Schedule RLM-3 I have removed the \$897,068 in GIS expenses
11 from rate base. I am also recommending a companion adjustment related
12 to the amortization of unapproved regulatory asset that is discussed in the
13 operating income section of my testimony.
14

15 **Rate Base Adjustment #6 – Working Capital**

16 Q. Have you reviewed the Company's working capital calculations?

17 A. Yes. The Company's working capital request is comprised of a 13-month
18 average balance for its prepayment and material and supplies accounts,
19 and its cash working capital request is based on a lead/lag study.
20

21 Q. Do you agree with the Company's methodology?

22 A. Yes. Further, I have reviewed the Company's individual lag day
23 calculations and find them to be reasonable. The only difference between

1 the Company's calculation and RUCO's is the different level of expense
2 recommendations and a correction of an error that the Company identified
3 in its test year level of revenue taxes and assessments. These
4 adjustments result in a net increase in cash working capital of \$1,200,152,
5 which is primarily attributable to the Company's revenue tax error.
6

7 **OPERATING INCOME**

8 **Operating Adjustment #12 – GIS Expenditures**

9 Q. Are you recommending an adjustment to remove amortization expense
10 associated with the Company's GIS deferrals?

11 A. Yes. As discussed previously in the rate base section of my testimony,
12 the Company has neither sought nor received approval for a GIS
13 regulatory asset. Thus, it has no such asset for which it is entitled to
14 amortize. As shown on Schedule RLM-7 I have therefore removed the
15 Company-proposed \$299,023 in amortization expense associated with the
16 GIS expenditures.
17

18 Q. Did the Company complete the GIS project during the test year?

19 A. Yes. Thus, these expenditures are unique and will not recur on an annual
20 basis.
21
22
23

1 Q. Hasn't the Company already recovered its GIS expenditures anyway?

2 A. Yes. During the test year the Company expensed the GIS expenditures
3 on its income statement. In the test year the Company had net income of
4 over \$10.5 million, which means not only did the Company recover all its
5 operating expenses (including the GIS expenditures) it also had money to
6 spare. Amortizing these expenses over three years, as proposed by the
7 Company, would result in a double recovery.

8

9 **Operating Adjustment #13 – Fleet Fuel Expense**

10 Q. Has the Company proposed an adjustment to its test year level of fuel
11 expense for its fleet of vehicles?

12 A. Yes. The Company has proposed an adjustment to annualize its fuel
13 expense to reflect the additional employees it has included in its payroll
14 annualization adjustment.

15

16 Q. Do you agree with this adjustment in concept?

17 A. Yes. The Company's payroll annualization has the effect of increasing
18 payroll expense to recognize payroll attributable to the year-end level of
19 employees for the entire year. The Company's proposed fleet fuel
20 adjustment recognizes the additional fuel expense attributable to these
21 additional employees as well as annualizes the average cost of gasoline.
22 Thus, conceptually the adjustment is necessary to match these two items
23 of expense.

1 Q. Do you agree with the Company's calculation of the fleet fuel expense
2 adjustment?

3 A. No. The Company's calculation was based on the average fuel prices
4 during the first few months of 2006. However, gasoline prices in early
5 2006 were abnormally high, thus the Company's calculation inflates the
6 annualized level of fuel expenses as a result. Further, the Company has
7 understated the average miles per gallon (mpg) that its fleet gets. As
8 shown on Schedule MDC-3, I have restated the mpg in the Company's
9 calculation to reflect actual test year mpg and utilized the average price of
10 gasoline over the entire test year. My adjustment results in an annualized
11 level of fuel expense that is \$67,502 less than the annualized level
12 proposed by the Company.

13

14 **Operating Adjustment #14 – Customer Annualization**

15 Q. Have you reviewed the Company's customer annualization?

16 A. Yes. The Company performs a calculation that it purports annualizes the
17 test year-end customers. The Company's revenue annualization
18 methodology, which uses growth percentages instead of absolute bill
19 counts, understates the revenue attributable to growth.

20

21 Q. What is the proper methodology for a customer annualization adjustment?

22 A. The Commission's accepted method is to compare the customer counts in
23 each month of the test year to the December 31, 2005 test year-end level

1 of customers, and then multiply the additional customers attributable to
2 each month by the average revenue for each month, to quantify the
3 additional revenue attributable to the additional customers. As shown on
4 Schedule MDC-4, my calculations using this methodology result in an
5 \$110,006 increase in revenue attributable to customer growth.
6

7 **Operating Adjustment #15 – Weather Normalization**

8 Q. Have you reviewed the Company's weather normalization adjustment?

9 A. Yes. The results of the Company's weather normalization adjustment are
10 reasonable and RUCO accepts this adjustment to increase test year
11 terms based on warmer-than-normal weather. I am also proposing an
12 additional adjustment of \$900, which is the weather adjustment related to
13 the additional customers I recognized in Operating Adjustment #14.
14

15 **Operating Adjustment #16 – Corporate Cost Allocations**

16 Q. Have you reviewed the Company's proposed Corporate Cost Allocation
17 adjustment?

18 A. Yes. As part of this adjustment the Company has removed \$130,471 in
19 test year expenses related to the attempted merger with KKR. I agree
20 with the Company that these test year expenses should be removed
21 because they are non-recurring in nature. However, pursuant to my audit
22 in this case I reviewed the Company's accounting records of its test year
23 Corporate allocated expenses and identified a total of \$149,094 in test

1 year merger-related expenses. I have therefore decreased operating
2 expenses by \$12,765 (\$149,094 - \$130,471) to remove the additional test
3 year merger-related expenses that the Company's adjustment does not
4 recognize.

5
6 **Operating Adjustment #17 – Bad Debts – Uncollectibles**

7 Q. Has the Company proposed an adjustment to reflect the level of proforma
8 bad debt expense attributable to its test year revenues?

9 A. Yes. The Company has computed its two-year average bad debt-to-
10 revenue ratio and applied that ratio to its adjusted test year revenue.

11
12 Q. Do you agree with this adjustment?

13 A. Yes and no. Conceptually it is appropriate to normalize the bad debt ratio
14 and to apply that to the test year adjusted revenues. However, the
15 Company's calculation is erroneous in that it applies the normalized bad
16 debt ratio to a level of revenue that is only partially adjusted.

17
18 Q. What do you mean only partially adjusted?

19 A. The Company's calculation begins with its actual test year revenue and
20 adds to that its customer annualization adjustment revenue and its
21 weather normalized adjustment revenue. From this amount the Company
22 backs out revenue attributable to a prior period. However, the Company's

1 test year adjusted revenue is comprised of more than these three
2 adjustments.

3
4 Q. What other revenue adjustments has the Company failed to recognize in
5 its bad debt calculation?

6 A. The Company's bad debt calculation fails to recognize the adjustments it
7 has made to decrease revenue for the Griffith plant revenue and the
8 Negotiated Sales Program (NSP) revenue. Since the Company has not
9 recognized these revenues for ratemaking purposes it would be
10 inappropriate to recognize bad debt expense associated with this revenue.
11 As shown on Schedule MDC-5, I have recalculated a normalized level of
12 bad debt expense based on RUCO's fully adjusted test year revenue.
13 This adjustment corrects the Company's error.

14
15 **Operating Adjustment #18 – CWIP Property Taxes**

16 Q. Has the Company proposed an adjustment for property taxes related to its
17 CWIP balances?

18 A. Yes. The Company proposes to increase test year expenses for both
19 depreciation on its CWIP balances and property tax on its CWIP balances.
20 I will not discuss the CWIP depreciation portion of this adjustment because
21 it is addressed by Mr. Moore in his testimony. The property tax portion of
22 this adjustment represents only the adjustment attributable to CWIP and
23 the Company has proposed a separate property tax adjustment for its

1 overall plant. This separate property tax adjustment, related to the overall
2 plant, is also addressed in the testimony of Mr. Moore.

3

4 Q. Do you agree with the property tax portion of the Company's CWIP
5 expense adjustment?

6 A. No. As discussed previously in the rate base section of my testimony,
7 CWIP is not used and useful and as such historically has not been
8 afforded rate base recognition. Likewise, the property tax attributable to
9 CWIP balances should not be included in test year operating expense.
10 My adjustment removes the Company's proforma CWIP property taxes of
11 \$166,884 from test year expenses.

12

13 **Operating Adjustment #19 – Out-of-Period Expenses**

14 Q. Has the Company made an adjustment to remove certain expenses from
15 the test year that relate to other accounting periods?

16 A. Yes. The Company had made an adjustment to remove three specific
17 expenses from the test year that relate to other accounting periods.

18

19 Q. Do you agree with this adjustment?

20 A. Yes. Rates should be set based only on costs in the test year and it is
21 appropriate to remove any costs related to prior or subsequent periods.
22 Pursuant to my rate case audit, however, I uncovered other out-of-period
23 expenses that the Company has failed to remove.

1 Q. What adjustment are you recommending?

2 A. As shown on Schedule MDC-6, I have identified three Price Waterhouse
3 invoices that are related to services performed at the end of 2004. These
4 expenses relate to a period prior to the test year and accordingly must be
5 removed from test year expenses. This adjustment decreases test year
6 expenses by \$21,120, which is the portion of these out-of-period expenses
7 that was allocated to UNS Gas.

8

9 **Operating Adjustment #20 – Legal Expenses**

10 Q. As part of your rate case audit did you review the Company's test year
11 legal expenses?

12 A. Yes. I reviewed the Company's test year legal expenses to ensure that
13 only those legal expenses necessary and beneficial to ratepayers were
14 included for rate recovery. I also sought to ensure that no non-recurring or
15 extraordinary legal expense were included for rate recovery.

16

17 Q. Did you identify any legal expenses that met this criterion?

18 A. Yes. There were a number of extraordinary, non-recurring legal expenses
19 present in the test year, all of which were incurred for the negotiation of a
20 settlement with El Paso Gas.

21

22

1 Q. Why do you say the El Paso settlement negotiation costs are
2 extraordinary and non-recurring?

3 A. These costs are extraordinary in that they represent the largest portion of
4 total test year legal expense and non-recurring in that a settlement has
5 now been reached in the El Paso Gas case that is pending FERC
6 approval. Thus, on a going forward basis there will not be any legal fees
7 associated with negotiating an El Paso Gas settlement.
8

9 Q. What adjustment are you recommending?

10 A. I have decreased test year operating expenses by \$311,051 to remove the
11 test year cost of negotiating the El Paso Gas settlement. These costs
12 have already been recovered in the test year and will not be incurred on a
13 going forward basis.
14

15
16 **CHANGES IN THE PURCHASED GAS ADJUSTOR (PGA)**

17 Q. Has the Company requested any changes to the characteristics of its
18 PGA?

19 A. Yes. The Company is requesting the following changes to its PGA:

- 20 1) No gas costs included in base rates. All gas costs would be
21 recovered through the PGA;
22 2) Elimination of the bandwidth or alternatively increased to \$0.25
23 from \$0.10 and then eliminated.

- 1 3) Interest earnings to be based on LIBOR plus 1.5%, except when
- 2 the PGA balance exceeds two times the threshold and then the rate
- 3 should be the Company's weighted cost of capital;
- 4 4) Change the threshold for requesting a surcredit for over-collected
- 5 balances to \$6,240,000;
- 6 5) Long-term debt used to finance PGA balances would not be
- 7 reflected in the capital structure for purposes of ratemaking; and
- 8 6) Surcharges should eliminate PGA balances in a timely manner.
- 9

10 Q. Please discuss the first of the Company proposed changes.

11 A. The Company requests that all of its gas costs be recovered through the

12 PGA. This compares with the status quo where a portion of the

13 Company's gas costs is recovered through base rates and a portion from

14 the PGA.

15

16 Q. Does RUCO support this proposed change?

17 A. Yes. RUCO supported this same change in the Southwest Gas rate case

18 and the Commission adopted the change. RUCO believes having one

19 tariff for the recovery of gas costs is more understandable to customers

20 and better provides the necessary information to enable customers to

21 better manage their gas bills.

22

23

1 Q. Please discuss the second of the Company-proposed changes.

2 A. This proposed change would eliminate the \$0.10 annual band on the PGA
3 adjustor. The Company argues that the purpose of the PGA is to allow
4 UNS Gas to recover its gas costs in a reasonably timely manner. In light
5 of recent significant increases in the cost of gas, the Company further
6 argues that because of the small bandwidth the PGA mechanism is no
7 longer capable of ensuring reasonably timely recovery of its gas costs. In
8 support of this argument the Company cites the high level of unrecovered
9 PGA balances that have accumulated in the PGA account over the past
10 five years or so.

11
12 Q. Do you support elimination of the band?

13 A. No. However, RUCO does believe that escalating gas prices and
14 Company's need to have timely recovery of its costs in order to remain
15 financially healthy warrant an increase in the width of the band. RUCO
16 recommends doubling the annual bandwidth to \$0.20. This will have the
17 effect of reducing what otherwise would have been the bank balance for
18 2007 by half. RUCO does not believe it is in the best interest of the
19 Company, or its customers, to continue mounting up a large liability.

20
21 Q. Please discuss the third proposed change.

22 A. This proposed change is comprised of two elements. First, the Company
23 proposes to change the interest rate applicable to the PGA bank balance

1 from the three-month commercial financial paper rate to LIBOR plus 1.5%,
2 which is the rate it pays on its line of credit. The Company argues that it
3 should be entitled to be made whole for the cost of financing its PGA
4 liability.

5
6 Q. Do you agree with this change?

7 A. Yes. RUCO believes the Company is entitled to be made whole for the
8 cost of financing its unrecovered prudently incurred gas costs. Therefore,
9 RUCO supports changing the interest on the PGA balance for UNS Gas to
10 LIBOR plus 1.5%.

11
12 Q. Please discuss the second aspect of the proposed interest rate change.

13 A. The second element the Company proposes is authority to apply its
14 authorized weighted cost of capital to its unrecovered PGA balance when
15 that balance exceeds two times its threshold level of \$6.24 million. The
16 Company argues that when the PGA bank balance becomes that large it
17 no longer represents a short-term investment, but rather a long-term
18 investment and should be afforded the same level of return as the long-
19 term assets in its rate base.

1 Q. Do you agree that the Commission should authorize this second aspect of
2 the proposed interest rate change?

3 A. No. While in the past UNS Gas may have had to carry large bank
4 balances over long periods of time, this is not what should be happening.
5 Given RUCO's recommendation to double the bandwidth and its
6 recommendation pursuant to the sixth proposed change (discussed
7 below) UNS Gas will no longer be burdened with large carry-forward PGA
8 balances and there will be no need for this proposed change. RUCO
9 believes that timely recovery of prudently incurred fuel costs results in a
10 healthy utility and protects ratepayers from a growing liability and high
11 interest costs.

12
13 Q. Please discuss the fourth proposed change.

14 A. The Company proposes that the threshold level for requesting a surcredit
15 for over-collected PGA balances be increased to \$6.24 million so it is
16 symmetrical with the under- collected balance threshold.

17
18 Q. Does RUCO agree with this proposed change?

19 A. Yes. RUCO believes it is fair and reasonable to treat the over-collected
20 balances in the same manner as the under-collected balances.

1 Q. Please discuss the fifth proposed change.

2 A. The Company seeks commitment from the Commission that any debt it
3 incurs solely to support under-collected PGA balances would not be
4 recognized in the Company's capital structure for purposes of setting
5 rates. The Company argues that since the PGA balances are not included
6 in rate base the debt associated with such balances should not serve to
7 lower its authorized rate of return.

8

9 Q. Do you agree that this is a commitment the Commission needs to make?

10 A. No. The Commission generally does not predetermine outside of a rate
11 case the ratemaking treatment it will afford a company's assets, liabilities,
12 revenues, and expenses. Further, based on RUCO's recommendation to
13 increase the bandwidth and for timely recognition of mounting PGA
14 liabilities, large balances should not accrue as they have in the past,
15 reducing the likelihood of debt issuances for the sole purpose of financing
16 under-collected PGA balances. Certainly, it would appear reasonable to
17 exclude debt associated with non-rate based liabilities from the
18 Company's capital structure, however, the appropriate time and place for
19 such a request is in a rate case.

20

21

22

23

1 Q. Please discuss the sixth proposed change.

2 A. The Company requests that the Commission grant timely and adequate
3 PGA surcharges so it can eliminate these balances over a reasonable
4 time period.

5
6 Q. Does RUCO agree?

7 A. Yes. As discussed earlier, it is neither in the Company's nor ratepayers'
8 best interest have a large mounting liability accruing. This jeopardizes the
9 financial health of the utility and creates rate shock for ratepayers when
10 the liability is eventually flowed into rates. Thus, RUCO supports
11 addressing growing PGA balances in a timely and adequate manner.

12

13 **RATE DESIGN**

14 Q. Is UNS Gas proposing any material changes in its rate design?

15 A. Yes. The Company is proposing several material changes to its current
16 rate design, which when taken in aggregate will create rate shock for
17 some customers, result in perverted price signals, and stifle conservation.

18

19 Q. Please discuss the Company's proposed changes.

20 A. The rate design changes proposed by the Company are as follows:

21 1) Shift revenue recovery from the commodity charge to the fixed
22 monthly charge;

1 2) Create a separate monthly charge for the winter months from the
2 summer months. Winter rates would be effective for four months of
3 the year and summer rates for eight months of the year. Summer
4 monthly charges would be nearly double the winter monthly
5 charges;

6 3) Create a decoupling mechanism called the Throughput Adjustment
7 Mechanism (TAM) that would guarantee UNS Gas recovery of its
8 authorized margin regardless of its therm sales.

9

10 Q. Please discuss the proposed shift in commodity revenues to the fixed
11 monthly charge.

12 A. Currently the Company recovers approximately 26% of its revenue from
13 the fixed monthly charge. The remainder is recovered through its
14 commodity rates. The Company's proposed rate design would recover
15 approximately 51% of its revenue from the fixed monthly charge. The
16 Company argues that such a shift is necessary so that it can recover its
17 authorized margin in spite of weather, conservation, and declining sales.

18

19 Q. What effect does such a drastic shift have on customer bills?

20 A. There are several ways customer bills will be affected by this drastic shift
21 in revenue recovery. First the lowest users will receive the greatest
22 percentage bill increase. The highest users will receive bill decreases.
23 The price signal on all customer bills will be diluted since so much more of

1 the bill will no longer driven by consumption. Such a drastic shift in price
2 signals is undesirable and at odds with the clearly-expressed Commission
3 intent to encourage conservation.

4

5 Q. Why does the Company-proposed rate design result in such perverse
6 price signals?

7 A. The Company has shifted more revenue to its fixed charge than it is
8 asking for as a rate increase in this rate case. Thus, to achieve a 51%
9 recovery from the fixed monthly charge, the Company has had to
10 *decrease* its commodity rate from the current \$0.30 per therm to \$0.18 per
11 therm. As a result, higher users will see their bills decrease under this
12 proposed design and low users will have the highest percentage increases
13 in their bills. This is a very perverse price signal that would all but halt any
14 incentive for conservation.

15

16 Q. Please discuss the second aspect of the Company-proposed rate design.

17 A. The Company is proposing a fixed charge for the winter months
18 (December – March) of \$11 and a fixed monthly charge of \$20 for the
19 summer months (April – November). This aspect of the Company-
20 proposed rate design further exacerbates the perverse price signal that
21 results from nearly doubling the percentage fixed revenue and decreasing
22 the commodity charge, as just discussed. The higher summer fixed
23 charges will further flatten any price signal possible from the Company's

1 rate design by equalizing summer and winter bills. UNS Gas already
2 offers a levelized billing program and RUCO believes the choice of
3 whether a customer prefers a levelized bill should be left with the
4 customer and UNS Gas should concentrate greater efforts to ensure that
5 customers are aware of the availability and advantages of the levelized bill
6 option.

7
8 Q. Please discuss the Company's proposed decoupling mechanism.

9 A. The Company claims that while its proposed rate structure would mitigate
10 some of its perceived revenue recovery problems, the continued use of
11 *any* volumetric charge creates uncertainty of revenue recovery. UNS Gas
12 proposes to remove this uncertainty with what it calls a Throughput
13 Adjustment Mechanism (TAM).

14
15 Q. How would the TAM work?

16 A. The TAM would true-up customer usage to match the billing determinants
17 authorized in this rate case. In other words, customers would pay for a
18 fixed amount of consumption regardless of how much they actually
19 consumed. The Company claims it needs this mechanism to "mitigate"
20 the risk of revenue recovery.

21

22

23

1 Q. Would this mechanism "mitigate" the risk of revenue recovery?

2 A. No. This mechanism would *entirely remove* any risk associated with
3 revenue recovery, not just merely mitigate it. In combination with the
4 proposed fixed charge shift, and the biased summer/winter rate proposal,
5 it would also send a perverse price signal that tells customers they will pay
6 the same whether they use large quantities of gas or no gas at all. It also
7 would guarantee UNS Gas' revenue recovery.
8

9 Q. Is it appropriate for the regulator of a monopoly public service company to
10 guarantee revenues?

11 A. No. Regulation is required to provide a public service company the
12 opportunity to recover its revenue requirement. As a public utility UNS
13 Gas already has an exclusive service territory and a captive customer
14 base, which places the Company at low business risk. The rate of return
15 that the Commission grants the Company is comprised of a risk element
16 that compensates the Company for business and financial risk. If the
17 regulator were to remove all risk to UNS Gas via the TAM, which RUCO
18 does not recommend, it would need to lower the authorized rate of return
19 to reflect the absence of any risk element.

20 Q. Has the Company's cost of capital witness made an adjustment to his
21 recommended rate of return to recognize the lack of risk under a TAM?

22 A. No.
23

1 Q. What other arguments does the Company make regarding the TAM?

2 A. The Company argues that the TAM would minimize the impact of weather
3 on customer bills, and characterizes that as a "benefit" of the TAM.
4 Further, the Company argues that the TAM "will allow" the Company to
5 implement, fund, and actively promote energy efficiency programs for its
6 customers.

7
8 Q. Do you agree with these arguments?

9 A No. First, the effect of "minimizing the impact of weather on customers
10 bills" is not necessarily a desirable feature for a gas rate design. Under
11 such a rate design, customers would receive no price signal reflecting
12 their consumption, therefore removing any incentive to conserve. Second,
13 the Company does not need a TAM to "allow" it to promote energy
14 efficiency programs. In fact, UNS Gas currently has some energy
15 efficiency programs in effect and the Commission has been very
16 supportive of utilities' efforts in this regard.

17
18 Q. Has the Commission rejected decoupling proposals in the past?

19 A. Yes. Southwest Gas, in its last rate case proposed a decoupling
20 mechanism (the CMT) very similar to that being proposed in this case. In
21 Decision No. 68487 the Commission denied the proposed decoupling
22 mechanism and stated the following:

1 Further, as RUCO points out, the likely effect of adopting the
2 proposed CMT is that residential customers will be required to pay
3 for gas that they have not used in prior years, a phenomenon that
4 could result in disincentives for such customers to undertake
5 conservation efforts. We are also concerned with the dramatic
6 impact that could be experienced by customers faced with a
7 surcharge for not using "enough" gas the prior year. The Company
8 is requesting that customers provide a guaranteed method of
9 recovering authorized revenues, thereby virtually eliminating the
10 Company's attendant risk. Neither the law nor sound public policy
11 requires such a result and we decline to adopt the Company's CMT
12 in this case.

13
14 Thus, the Commission fully recognized the perverse incentives such a
15 mechanism could have, and accordingly denied the request. RUCO
16 recommends that the Commission take the same action here.

17
18 Q. Please summarize RUCO's position on the Company-proposed rate
19 design.

20 A. The three salient features of the Company-proposed rate design when
21 viewed independently are extreme and when reviewed in aggregate result
22 in perverse price signals that will only serve to incent are the wrong
23 behaviors. Customers that aggressively consume would be rewarded

1 under the Company-proposed rate design and customers who conserve
2 would be penalized. RUCO recommends the Commission reject the
3 biased winter/summer rates, the doubling of the revenue allocated to the
4 fix charge, and the TAM.

5
6 Q. Please discuss RUCO's proposed rate design.

7 A. RUCO's proposal is for a rate design that removes the perverse price
8 signals inherent in the Company's proposal, while at the same time
9 addresses some of the Company's fixed cost and risk of revenue recovery
10 concerns. First, I have maintained the existing allocation of rate recovery
11 between the customer classes. Thus, my proposed rate design does not
12 shift rate recovery between customer classes. Second, the Company's
13 existing rate design recovers 26% of its revenue from the fixed monthly
14 charge. RUCO's proposed rate design increases this percentage to 36%,
15 which addresses the Company's risk of recovery concerns without
16 flattening out the rate so much that it discourages conservation. Third, I
17 have applied the same fixed charge in both the winter and summer. This
18 aspect of my rate design allows for a price signal from weather.
19 Customers who do not want this price signal are still able to opt into UNS
20 Gas' levelized billing plan. RUCO's proposed rate design leaves this
21 choice with the individual customer as opposed to the Company's
22 proposal which would levelize all bills, whether the customer wanted it or
23 not. Finally, RUCO's proposed rate design will not result in customers

1 having to pay for therms they did not use and adheres to the
2 Commission's findings in Decision No. 68487 regarding the undesirability
3 of the proposed decoupling mechanism. RUCO's recommended rates
4 and charges are shown on Schedule RLM-15 and RLM-16 presents an
5 average residential bill analysis at different usage levels.
6

7 **RULES AND REGULATIONS OF SERVICE**

8 Q. Is the Company proposing any changes to its rules and regulations of
9 service?

10 A. Yes. The Company has proposed to several changes to its rules and
11 regulations of service. RUCO takes issue with one of the proposed
12 changes.
13

14 Q. Which proposed change does RUCO take issue with.

15 A. The Company proposes to shorten the period of time customers have to
16 pay their gas bills before a late fee is assessed from 15 days to 10 days
17 and to short the time customers have to pay a past due bill prior to notice
18 of shut-off from 30 days to 15 days.
19

20 Q. Why does RUCO take issue with these proposed changes?

21 A. The proposed changes are unreasonable. The proposed payment due
22 dates are so short that a UNS Gas customer on vacation could
23 foreseeably come home and find their gas shut-off. Since gas is a vital

1 service to many, a more flexible payment schedule should prevail. As a
2 regulated utility UNS Gas already receives a working capital allowance to
3 bridge differences between receipt of revenues and payment of expenses,
4 and should not have to impose unreasonable payment terms on its
5 customers. RUCO recommends the Commission deny the proposed
6 changes in payment due dates.

7

8 Q. Does this conclude your direct testimony?

9 A. Yes.

10

11

12

APPENDIX I

APPENDIX I

Qualifications of Marylee Diaz Cortez

EDUCATION: University of Michigan, Dearborn
B.S.A., Accounting 1989

CERTIFICATION: Certified Public Accountant - Michigan
Certified Public Accountant - Arizona

EXPERIENCE: Audit Manager
Residential Utility Consumer Office
Phoenix, Arizona 85007
July 1994 - Present

Responsibilities include the audit, review and analysis of public utility companies. Prepare written testimony, schedules, financial statements and spreadsheet models and analyses. Testify and stand cross-examination before Arizona Corporation Commission. Advise and work with outside consultants. Work with attorneys to achieve a coordination between technical issues and policy and legal concerns. Supervise, teach, provide guidance and review the work of subordinate accounting staff.

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona 85004
October 1992 - June 1994

Responsibilities included the audit, review and analysis of public utility companies. Prepare written testimony and exhibits. Testify and stand cross-examination before Arizona Corporation Commission. Extensive use of Lotus 123, spreadsheet modeling and financial statement analysis.

Auditor/Regulatory Analyst
Larkin & Associates - Certified Public Accountants
Livonia, Michigan
August 1989 - October 1992

Performed on-site audits and regulatory reviews of public utility companies including gas, electric, telephone, water and sewer throughout the continental United States. Prepared integrated proforma financial statements and rate models for some of the largest public utilities in the United States. Rate models consisted

of anywhere from twenty to one hundred fully integrated schedules. Analyzed financial statements, accounting detail, and identified and developed rate case issues based on this analysis. Prepared written testimony, reports, and briefs. Worked closely with outside legal counsel to achieve coordination of technical accounting issues with policy, procedural and legal concerns. Provided technical assistance to legal counsel at hearings and depositions. Served in a teaching and supervisory capacity to junior members of the firm.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Client</u>
Potomac Electric Power Co.	Formal Case No. 889	Peoples Counsel of District of Columbia
Puget Sound Power & Light Co.	Cause No. U-89-2688-T	U.S. Department of Defense - Navy
Northwestern Bell-Minnesota	P-421/EI-89-860	Minnesota Department of Public Service
Florida Power & Light Co.	890319-EI	Florida Office of Public Counsel
Gulf Power Company	890324-EI	Florida Office of Public Counsel
Consumers Power Company	Case No. U-9372	Michigan Coalition Against Unfair Utility Practices
Equitable Gas Company	R-911966	Pennsylvania Public Utilities Commission
Gulf Power Company	891345-EI	Florida Office of Public Counsel

Jersey Central Power & Light	ER881109RJ	New Jersey Department of Public Advocate Division of Rate Counsel
Green Mountain Power Corp.	5428	Vermont Department of Public Service
Systems Energy Resources	ER89-678-000 & EL90-16-000	Mississippi Public Service Commission
El Paso Electric Company	9165	City of El Paso
Long Island Lighting Co.	90-E-1185	New York Consumer Protection Board
Pennsylvania Gas & Water Co.	R-911966	Pennsylvania Office of Consumer Advocate
Southern States Utilities	900329-WS	Florida Office of Public Counsel
Central Vermont Public Service Co.	5491	Vermont Department of Public Service
Detroit Edison Company	Case No. U-9499	City of Novi
Systems Energy Resources	FA-89-28-000	Mississippi Public Service Commission
Green Mountain Power Corp.	5532	Vermont Department of Public Service
United Cities Gas Company	176-717-U	Kansas Corporation Commission

General Development Utilities	911030-WS & 911067-WS	Florida Office of Public Counsel
Hawaiian Electric Company	6998	U.S. Department of Defense - Navy
Indiana Gas Company	Cause No. 39353	Indiana Office of Consumer Counselor
Pennsylvania American Water Co.	R-00922428	Pennsylvania Office of Consumer Advocate
Wheeling Power Co.	Case No. 90-243-E-42T	West Virginia Public Service Commission Consumer Advocate Division
Jersey Central Power & Light Co.	EM89110888	New Jersey Department of Public Advocate Division of Rate Counsel
Golden Shores Water Co.	U-1815-92-200	Residential Utility Consumer Office
Consolidated Water Utilities	E-1009-92-135	Residential Utility Consumer Office
Sulphur Springs Valley Electric Cooperative	U-1575-92-220	Residential Utility Consumer Office
North Mohave Valley Corporation	U-2259-92-318	Residential Utility Consumer Office
Graham County Electric Cooperative	U-1749-92-298	Residential Utility Consumer Office
Graham County Utilities	U-2527-92-303	Residential Utility Consumer Office

Consolidated Water Utilities	E-1009-93-110	Residential Utility Consumer Office
Litchfield Park Service Co.	U-1427-93-156 & U-1428-93-156	Residential Utility Consumer Office
Pima Utility Company	U-2199-93-221 & U-2199-93-222	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-94-306	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-182	Residential Utility Consumer Office
Paradise Valley Water	U-1303-94-310 & U-1303-94-401	Residential Utility Consumer Office
Pima Utility Company	U-2199-94-439	Residential Utility Consumer Office
SaddleBrooke Development Co.	U-2492-94-448	Residential Utility Consumer Office
Boulders Carefree Sewer Corp.	U-2361-95-007	Residential Utility Consumer Office
Rio Rico Utilities	U-2676-95-262	Residential Utility Consumer Office
Rancho Vistoso Water	U-2342-95-334	Residential Utility Consumer Office
Arizona Public Service Co.	U-1345-95-491	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-473	Residential Utility Consumer Office
Citizens Utilities Co.	E-1032-95-417 et al.	Residential Utility Consumer Office
Paradise Valley Water	U-1303-96-283 & U-1303-95-493	Residential Utility Consumer Office
Far West Water	U-2073-96-531	Residential Utility Consumer Office

Southwest Gas Corporation	U-1551-96-596	Residential Utility Consumer Office
Arizona Telephone Company	T-2063A-97-329	Residential Utility Consumer Office
Far West Water Rehearing	W-0273A-96-0531	Residential Utility Consumer Office
SaddleBrooke Utility Company	W-02849A-97-0383	Residential Utility Consumer Office
Vail Water Company	W-01651A-97-0539 & W-01651B-97-0676	Residential Utility Consumer Office
Black Mountain Gas Company Northern States Power Company	G-01970A-98-0017 G-03493A-98-0017	Residential Utility Consumer Office
Paradise Valley Water Company Mummy Mountain Water Company	W-01303A-98-0678 W-01342A-98-0678	Residential Utility Consumer Office
Bermuda Water Company	W-01812A-98-0390	Residential Utility Consumer Office
Bella Vista Water Company Nicksville Water Company	W-02465A-98-0458 W-01602A-98-0458	Residential Utility Consumer Office
Paradise Valley Water Company	W-01303A-98-0507	Residential Utility Consumer Office
Pima Utility Company	SW-02199A-98-0578	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144 Interim Rates	Residential Utility Consumer Office
Vail Water Company	W-01651B-99-0355 Interim Rates	Residential Utility Consumer Office
Far West Water & Sewer Company	WS-03478A-99-0144	Residential Utility Consumer Office
Sun City Water and Sun City West	W-01656A-98-0577 & SW-02334A-98-0577	Residential Utility Consumer Office

Southwest Gas Corporation ONEOK, Inc.	G-01551A-99-0112 G-03713A-99-0112	Residential Utility Consumer Office
Table Top Telephone	T-02724A-99-0595	Residential Utility Consumer Office
U S West Communications Citizens Utilities Company	T-01051B-99-0737 T-01954B-99-0737	Residential Utility Consumer Office
Citizens Utilities Company	E-01032C-98-0474	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-00-0309 & G-01551A-00-0127	Residential Utility Consumer Office
Southwestern Telephone Company	T-01072B-00-0379	Residential Utility Consumer Office
Arizona Water Company	W-01445A-00-0962	Residential Utility Consumer Office
Litchfield Park Service Company	W-01427A-01-0487 & SW-01428A-01-0487	Residential Utility Consumer Office
Bella Vista Water Co., Inc.	W-02465A-01-0776	Residential Utility Consumer Office
Generic Proceedings Concerning Electric Restructuring Issues	E-00000A-02-0051	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0707	Residential Utility Consumer Office
Qwest Corporation	RT-00000F-02-0271	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-02-0403	Residential Utility Consumer Office
Citizens/UniSource	G-01032A-02-0598 E-01032C-00-0751 E-01933A-02-0914 E-01302C-02-0914 G-01302C-02-0914	Residential Utility Consumer Office

Arizona-American Water Company	WS-01303A-02-0867	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-03-0437	Residential Utility Consumer Office
UniSource	E-04230A-03-0933	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-04-0407	Residential Utility Consumer Office
Qwest Corporation	T-01051B-03-0454 & T-00000D-00-0672	Residential Utility Consumer Office
Tucson Electric Power Company	E-01933A-04-0408	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0280	Residential Utility Consumer Office
Southwest Gas Corporation	G-01551A-04-0876	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0405	Residential Utility Consumer Office
Arizona-American Water Company	W-1303A-05-0718	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-06-0009	Residential Utility Consumer Office
Black Mountain Sewer Corporation	SW-02361A-05-0657	Residential Utility Consumer Office
Arizona Public Service Company	E-01345A-05-0816	Residential Utility Consumer Office
Arizona-American Water Company	WS-1303A-06-0014	Residential Utility Consumer Office
Tucson Electric Power Company	E-01933A-05-0650	Residential Utility Consumer Office

SCHEDULES

MDC-1 THROUGH MDC-7

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
RATE BASE ADJ #3 - ACCUMULATED AMORTIZATION
OF ACQUISITION ADJUSTMENT

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-1

FERC ACCT	FERC ACCOUNT DESCRIPTION	(A)	(B)	(C)
114 (302)	Franchises & Consents - Citizens Acquisition Discount	44,743	4.00%	4,178
114 (303)	Miscellaneous Intangible Plant - Citizens Acquisition Discount	44,346	4.00%	4,141
114 (365)	Land and Land Rights - Citizens Acquisition Discount	18,927		0
114 (366)	Structures & Improvements - Citizens Acquisition Discount	2,886		0
114 (367)	Mains - Citizens Acquisition Discount	1,968,939	2.57%	118,115
114 (369)	Measuring and Reg. Station Equipment - Citizens Acquisition Discount	520,801	3.32%	40,360
114 (371)	Other Equipment - Citizens Acquisition Discount	29,679		0
114 (374)	Land and Land Rights - Citizens Acquisition Discount	47,590		0
114 (375)	Structures & Improvements - Citizens Acquisition Discount	303	3.35%	24
114 (376)	Mains - Citizens Acquisition Discount	21,622,117	2.22%	1,120,442
114 (378)	Meas. and Reg. Station Equipment - General - Citizens Acquisition Discount	231,298	5.73%	30,936
114 (379)	Meas. and Reg. Station Equipment - City Gate - Citizens Acquisition Discount	293,957	5.52%	37,876
114 (380)	Services - Citizens Acquisition Discount	8,147,940	4.75%	903,399
114 (381)	Meters - Citizens Acquisition Discount	1,424,561	2.86%	95,101
114 (382)	Meter Installations - Citizens Acquisition Discount	913,884	2.86%	61,009
114 (383)	House Regulators - Citizens Acquisition Discount	219,269	3.77%	19,296
114 (384)	House Regulatory Installations - Citizens Acquisition Discount	100,939	3.77%	8,883
114 (385)	Industrial Meas. & Reg. Station Equipment - Citizens Acquisition Discount	130,614	3.82%	11,646
114 (387)	Other Equipment - Citizens Acquisition Discount	179,204	3.64%	15,226
114 (389)	Land and Rights - Citizens Acquisition Discount	60,370		0
114 (390)	Structures & Improvements - Citizens Acquisition Discount	150,945	3.10%	10,922
114 (391)	Office Furniture and Equipment - Citizens Acquisition Discount	790,019	4.82%	88,884
114 (392)	Transportation Equipment - Citizens Acquisition Discount	104,867		0
114 (393)	Stores Equipment - Citizens Acquisition Discount	21,810	2.27%	1,156
114 (394)	Tools, Shop and Garage Equipment - Citizens Acquisition Discount	283,074	5.76%	38,059
114 (395)	Laboratory Equipment - Citizens Acquisition Discount	96,782	5.76%	13,012
114 (396)	Power Operated Equipment - Citizens Acquisition Discount	6,761	24.60%	3,882
114 (397)	Communication Equipment - Citizens Acquisition Discount	188,597	4.93%	21,703
114 (398)	Miscellaneous Equipment - Citizens Acquisition Discount	36,333	5.43%	4,605
Total Accumulated Amortization				\$2,652,853
Per Company				\$2,403,966
Adjustment				\$248,887

References

Col. (A): Company w/p
Col. (B): Authorized Depreciation Rates per Dec. # 58664
Col. (C): Col. (A) x Col. (B) x 2.3342 years

UNS GAS CORPORATION
TEST YEAR ENDED DECEMBER 31, 2005
RATE BASE ADJUSTMENT # 6 - WORKING CAPITAL

DOCKET NO. G-004204A-06-0463
SCHEDULE MDC-2
PAGE 1 OF 2

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	MATERIALS & SUPPLIES PER UNS	\$2,039,798	SCH. B-5, PG. 1
2	MATERIALS & SUPPLIES PER RUCO	<u>2,039,798</u>	SCH. B-5, PG. 1
3	ADJUSTMENT	0	LINE 2 - LINE 1
4	PREPAYMENTS PER UNS	195,942	SCH. B-5, PG. 1
5	PREPAYMENTS PER RUCO	<u>195,942</u>	SCH. B-5, PG. 1
6	ADJUSTMENT	0	LINE 5 - LINE 4
7	CASH WORKING CAPITAL PER UNS	(3,280,886)	SCH. B-5, PG. 2
8	CASH WORKING CAPITAL PER RUCO	<u>(2,080,734)</u>	SCHEDULE MDC-
9	ADJUSTMENT	1,200,152	LINE 8 - LINE 7
10	TOTAL ADJUSTMENT (See RLM-3, Column (G))	<u>\$1,200,152</u>	SUM LINES 3, 6 & 9

LEAD/LAG DAY SUMMARY

LINE NO.	DESCRIPTION	(A) COMPANY EXPENSES AS FILED	(B) RUCO ADJUSTMTS	(C) RUCO EXPENSES AS ADJUSTED	(D) (LEAD)/LAG DAYS	(E) DOLLAR DAYS
	Operating Expenses:					
	Non-Cash Expenses					
1	Bad Debts Expense	\$ 722,634	\$ -	\$ -	0	\$ -
2	Depreciation	7,950,183	-	-	0	-
3	Amortization	(729,791)	-	-	0	-
4	Deferred Income Taxes	3,178,719	-	-	0	-
5	Total Non-Cash Expenses	<u>\$ 11,121,745</u>	<u>\$ -</u>	<u>\$ -</u>		<u>\$ -</u>
	Other Operating Expenses:					
6	Salaries & Wages (UNS Dir. Emp's)	\$ 7,287,745	\$ -	\$ 7,287,745	24.50	\$ 178,549,753
7	Incentive Pay (UNS Dir. Emp's)	257,895	(257,895)	-	267.00	-
8	Purchased Gas	78,101,248	-	78,101,248	30.97	2,418,795,651
9	Office Supplies and Expenses	1,365,974	(156,063)	1,209,911	20.72	25,069,354
10	Injuries and Damages	574,128	(34,234)	539,894	64.75	34,958,114
11	Pensions and Benefits	2,452,071	(93,075)	2,358,996	54.66	128,942,703
12	Support Services - TEP(Dir. Labor)	4,570,692	-	4,570,692	44.91	205,269,778
13	Property Taxes	4,103,376	(476,193)	3,627,183	213.00	772,590,038
14	Payroll Taxes	537,877	(20,853)	517,024	19.30	9,978,563
15	Current Income Taxes	(1,203,222)	5,594,736	4,391,514	41.42	181,896,507
16	Interest on Customer Deposits	170,459	-	170,459	182.50	31,108,848
17	Other Operations and Maintenance	7,501,807	(1,023,893)	6,477,914	53.10	343,977,225
18	Total Other Operating Expenses	<u>\$105,720,050</u>	<u>\$ 3,532,530</u>	<u>\$109,252,580</u>		<u>\$ 4,331,136,533</u>
19	Total Operating Expenses	<u>\$116,841,794</u>	<u>\$ 3,532,530</u>	<u>\$109,252,580</u>		<u>\$ 4,331,136,533</u>
	Other Cash Working Capital Elements:					
20	Interest on Long-Term Debt	\$ 5,334,825	\$ (828,037)	\$ 4,506,788	91.62	\$ 412,911,927
21	Revenue Taxes and Assessments	18,788,535	(6,822,129)	11,966,406	76.25	912,438,458
22	Total Other Cash Working Capital	<u>\$ 24,123,360</u>	<u>\$ (7,650,166)</u>	<u>\$ 16,473,194</u>		<u>\$ 1,325,350,385</u>
23	TOTAL			<u>\$125,725,774</u>		<u>\$ 5,656,486,918</u>
24	Expense Lag	Line 23, Col. (E) / (D)	44.99			
25	Revenue Lag	Company Workpapers	38.95			
26	Net Lag	Line 25 - Line 24	(6.04)			
27	RUCO Adjusted Expenses	Col. (C), Line 23	\$125,725,774			
28	Cash Working Capital	Line 26 X Line 27 / 365 Days	(2,080,734)			
29	Company As Filed	Co. Schedule B-5, Page 1	(3,280,886)			
30	ADJUSTMENT (See MDC-2, Pg 1, L 9) Line 28 - Line 29		<u>1,200,152</u>			

References:

Column (A): - Company Schedule B-5, Page 3
Column (B): RUCO Operating Income Adjustments (See Schedule RLM-7)
Column (C): Column (B) - (A)
Column (D): Company Schedule B-5, Page 3
Column (E): Column (C) X Column (D)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #13 - FLEET FUEL EXPENSE

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-3

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	AVERAGE MILEAGE PER CONSTRUCTION FTE	\$15,016	COMPANY W/P
2	2006 FTE'S	<u>158</u>	COMPANY W/P
3	2006 PROFORMA MILEAGE	2,372,528	LINE 1 x LINE 2
4	2005 MILES PER GALLON	10.28	T/Y MILES/T/Y GALLONS
5	PROFORMA GALLONS PURCHASED	230,746	LINE 4/LINE 4
6	COST PER GALLON 2005	<u>2.43</u>	COMPANY W/P
7	FUEL COSTS	560,714	LINE 5 x LINE 6
8	PRO CARD PURCHASES	<u>37,491</u>	COMPANY W/P
9	TOTAL PROFORMA FUEL EXPENSE	598,205	LINE 7 + LINE 8
10	PER COMPANY	<u>665,707</u>	COMPANY W/P
11	ADJUSTMENT	(67,502)	LINE 9 - LINE 10
12	O&M ALLOCATION FACTOR	<u>73.4%</u>	COMPANY W/P
13	O&M ADJUSTMENT	<u>(\$49,547)</u>	LINE 11 x LINE 12

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-4
PAGE 1 OF 8

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>RUCO ANNUALIZED REVENUE</u>	<u>REFERENCE</u>
1	RESIDENTIAL RATE 10	\$620,694	SCH. MDC-4, PG. 2
2	RESIDENTIAL RATE 12	84,010	SCH. MDC-4, PG. 3
3	COMMERCIAL RATE 20	107,350	SCH. MDC-4, PG. 4
4	COMMERCIAL RATE 22	15,418	SCH. MDC-4, PG. 5
5	INDUSTRIAL RATE 30	(6,885)	SCH. MDC-4, PG. 6
6	PUBLIC AUTH. RATE 40	16,423	SCH. MDC-4, PG. 7
7	PUBLIC AUTH. RATE 42	<u>(1,321)</u>	SCH. MDC-4, PG. 8
8	TOTAL	835,688	SUM LINES 1 THROUGH 7
9	PER COMPANY	<u>725,682</u>	COMPANY W/P
10	ADJUSTMENT	<u>\$110,006</u>	LINE 8 - LINE 9

LINE NO.	DESCRIPTION	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1	RESIDENTIAL RATE 12 TY END CUSTOMERS	5,556	5,556	5,556	5,556	5,556	5,556	5,556	5,556	5,556	5,556	5,556	5,556
2	TY MONTHLY CUSTOMERS	4,788	4,905	5,045	5,161	5,295	5,358	5,407	5,443	5,377	5,341	5,484	5,556
3	INCREASE IN CUSTOMERS	758	651	511	395	261	198	149	113	179	215	72	0
4	MONTHLY MINIMUM CHRG.	7	7	7	7	7	7	7	7	7	7	7	7
5	REVENUE FROM MINIMUM	5,306	4,557	3,577	2,765	1,827	1,386	1,043	791	1,253	1,505	504	0
6	MARGIN RATE	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004	0.3004
7	THERMS PER CUSTOMER	92	76	66	55	32	18	14	12	14	16	29	66
8	REVENUE FROM MARGIN	\$20,949	\$14,863	\$10,131	\$6,526	\$2,509	\$1,071	\$627	\$407	\$753	\$1,033	\$627	\$0
9	TOTAL INCREASE IN REVENUE	84,010											
10	PER COMPANY	105,047											
11	ADJUSTMENT												

(\$21,037)

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-4
PAGE 4 OF 8

[illegible]

LINE NO.	DESCRIPTION	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1	COMMERCIAL RATE 22 TY END CUSTOMERS	11	11	11	11	11	11	11	11	11	11	11	11
2	TY MONTHLY CUSTOMERS	10	10	10	10	10	10	10	10	10	11	11	11
3	INCREASE IN CUSTOMERS	1	1	1	1	1	1	1	1	1	0	0	0
4	MONTHLY MINIMUM CHRG.	85	85	85	85	85	85	85	85	85	85	85	85
5	REVENUE FROM MINIMUM	85	85	85	85	85	85	85	85	85	0	0	0
6	MARGIN RATE	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551	0.1551
7	THERMS PER CUSTOMER	17,420	14,475	13,507	13,143	10,212	7,636	6,936	5,073	6,073	6,961	7,857	10,200
8	REVENUE FROM MARGIN	\$2,702	\$2,245	\$2,095	\$2,038	\$1,584	\$1,184	\$1,076	\$787	\$942	\$0	\$0	\$0
9	TOTAL INCREASE IN REVENUE	15,418											
10	PER COMPANY	11,350											
11	ADJUSTMENT												

\$4,068

UNSGAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #14 - REVENUE ANNUALIZATION

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-4
PAGE 6 OF 8

LINE NO.	DESCRIPTION	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1	INDUSTRIAL RATE 30 T/Y END CUSTOMERS	12	12	12	12	12	12	12	12	12	12	12	12
2	T/Y MONTHLY CUSTOMERS	13	13	13	13	13	13	13	13	13	13	12	12
3	INCREASE IN CUSTOMERS	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0	0
4	MONTHLY MINIMUM CHRG.	11	11	11	11	11	11	11	11	11	11	11	11
5	REVENUE FROM MINIMUM	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	(11)	0	0
6	MARGIN RATE	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122	0.2122
7	THERMS PER CUSTOMER	4,068	3,758	3,254	3,258	2,276	6,206	1,869	2,167	2,925	2,148	2,206	5,653
8	REVENUE FROM MARGIN	(\$863)	(\$797)	(\$690)	(\$691)	(\$483)	(\$1,317)	(\$397)	(\$460)	(\$621)	(\$456)	\$0	\$0
9	TOTAL INCREASE IN REVENUE	(6,885)											
10	PER COMPANY	0											
11	ADJUSTMENT												

(\$6,885)

LINE NO.	DESCRIPTION PUBLIC AUTH. RATE 40	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1	TY END CUSTOMERS	1,051	1,051	1,051	1,051	1,051	1,051	1,051	1,051	1,051	1,051	1,051	1,051
2	TY MONTHLY CUSTOMERS	1,027	1,033	1,039	1,044	1,044	1,043	1,041	1,046	1,042	1,039	1,050	1,051
3	INCREASE IN CUSTOMERS	24	18	12	7	7	8	10	5	9	12	1	0
4	MONTHLY MINIMUM CHRG.	11	11	11	11	11	11	11	11	11	11	11	11
5	REVENUE FROM MINIMUM	264	198	132	77	77	88	110	55	99	132	11	0
6	MARGIN RATE	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354	0.2354
7	THERMS PER CUSTOMER	1,109	896	759	633	333	161	98	101	109	150	316	761
8	REVENUE FROM MARGIN	\$6,265	\$3,797	\$2,144	\$1,043	\$549	\$303	\$231	\$119	\$231	\$424	\$74	\$0
9	TOTAL INCREASE IN REVENUE	16,423											
10	PER COMPANY	21,325											
11	ADJUSTMENT												

(\$4,902)

LINE NO.	DESCRIPTION	JAN	FEB	MARCH	APRIL	MAY	JUNE	JULY	AUG	SEPT	OCT	NOV	DEC
1	PUBLIC AUTH. RATE 42 T/Y END CUSTOMERS	5	5	5	5	5	5	5	5	5	5	5	5
2	T/Y MONTHLY CUSTOMERS	6	6	6	6	6	6	6	6	6	6	5	5
3	INCREASE IN CUSTOMERS	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	0	0
4	MONTHLY MINIMUM CHRG.	85	85	85	85	85	85	85	85	85	85	85	85
5	REVENUE FROM MINIMUM	(85)	(85)	(85)	(85)	(85)	(85)	(85)	(85)	(85)	(85)	0	0
6	MARGIN RATE	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084	0.1084
7	THERMS PER CUSTOMER	1,109	896	759	633	333	161	98	101	109	150	316	761
8	REVENUE FROM MARGIN	(\$120)	(\$97)	(\$82)	(\$69)	(\$36)	(\$17)	(\$11)	(\$11)	(\$12)	(\$16)	\$0	\$0
9	TOTAL INCREASE IN REVENUE	(1,321)											
10	PER COMPANY	(13,212)											
11	ADJUSTMENT												

\$11,891

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #17 - UNCOLLECTIBLES EXPENSE

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-5

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	RUCO T/Y ADJUSTED REVENUE	\$47,280,434	SCHEDULE RLM-6
2	T/Y GAS REVENUES	<u>75,545,465</u>	SCHEDULE C-2, PAGE 1
3	TOTAL T/Y ADJUSTED REVENUES	122,825,899	LINE 1 + LINE 2
4	UNCOLLECTIBLES RATE	<u>0.51052%</u>	COMPANY W/P
5	UNCOLLECTIBLES EXPENSE	627,051	LINE 3 x LINE 4
6	UNCOLLECTIBLES PER COMPANY	<u>722,634</u>	COMPANY W/P
7	ADJUSTMENT	<u>(\$95,583)</u>	LINE 5 - LINE 6

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #19 - OUT OF PERIOD EXPENSES

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-6

<u>LINE NO.</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>	<u>REFERENCE</u>
1	PRICE WATER HOUSE - NOV-DEC 2004	\$172,607	RUCO DR 2.22, UNSG0463/00101
2	PRICE WATER HOUSE - NOV-DEC 2004	9,058	RUCO DR 2.22, UNSG0463/00108
3	PRICE WATER HOUSE DEC 1-DEC 31 2004	<u>58,335</u>	RUCO DR 2.22, UNSG0463/00098
4	TOTAL	240,000	SUM LINES 1 - 3
5	ALLOCATION FACTOR	<u>8.80%</u>	RUCO DR 7.3
6	ADJUSTMENT	<u>\$21,120</u>	LINE 4 x LINE 5

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
OPERATING ADJ #20 - LEGAL FEES

DOCKET NO. G-04204A-06-0463
SCHEDULE MDC-7

<u>LINE NO.</u>	<u>DATE</u>	<u>DESCRIPTION</u>	<u>AMOUNT</u>
1	5-May	FLEISCHMAN & WALSH LLP	\$87,269
2	5-Aug	FLEISCHMAN & WALSH LLP	28,463
3	5-Sep	FLEISCHMAN & WALSH LLP	56,612
4	5-Oct	FLEISCHMAN & WALSH LLP	32,331
5	5-Nov	FLEISCHMAN & WALSH LLP	28,712
6	5-Dec	FLEISCHMAN & WALSH LLP	39,129
7	5-Dec	FLEISCHMAN & WALSH LLP	<u>38,535</u>
8		TOTAL	<u>\$311,051</u>

UNS GAS, INC.

DOCKET NO. G-04204A-06-0463 et al.

DIRECT TESTIMONY

OF

WILLIAM A. RIGSBY, CRRA

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 9, 2007

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18		

INTRODUCTION

Q. Please state your name, occupation, and business address.

A. My Name is William A. Rigsby. I am a Public Utilities Analyst V employed by the Residential Utility Consumer Office ("RUCO") located at 1110 W. Washington, Suite 220, Phoenix, Arizona 85007.

Q. Please describe your qualifications in the field of utilities regulation and your educational background.

A. I have been involved with utilities regulation in Arizona since 1994. During that period of time I have worked as a utilities rate analyst for both the Arizona Corporation Commission ("ACC" or "Commission") and for RUCO. I hold a Bachelor of Science degree in the field of finance from Arizona State University and a Master of Business Administration degree, with an emphasis in accounting, from the University of Phoenix. I have also been awarded the professional designation, Certified Rate of Return Analyst ("CRRA") by the Society of Utility and Regulatory Financial Analysts ("SURFA"). The CRRA designation is awarded based upon experience and the successful completion of a written examination. Appendix I, which is attached to this testimony, further describes my educational background and also includes a list of the rate cases and regulatory matters that I have been involved with.

1 Q. What is the purpose of your testimony?

2 A. The purpose of my testimony is to present recommendations that are
3 based on my analysis of UNS Gas, Inc.'s ("UNS" or "Company")
4 application for a permanent rate increase ("Application") for the
5 Company's natural gas distribution operations in northern Arizona and
6 Santa Cruz County in southern Arizona. UNS filed the Application with the
7 ACC on July 13, 2006. The Company has chosen the fiscal year ended
8 December 31, 2005 for the test year in this proceeding.

9

10 Q. Briefly describe UNS.

11 A. UNS is a wholly owned subsidiary of UniSource Energy Services, which is
12 owned by UniSource Energy Corporation ("UniSource" or "Parent"), an
13 Arizona corporation, based in Tucson, that is publicly traded on the New
14 York Stock Exchange ("NYSE")¹. UniSource is also the parent company
15 of Tucson Electric Power, the second largest investor owned electric utility
16 in the state. In addition to natural gas distribution, UniSource also
17 provides electric service through its other subsidiary UNS Electric, Inc., to
18 customers in Mohave and Santa Cruz Counties.

19

20 Q. Please explain your role in RUCO's analysis of UNS' Application.

21 A. I reviewed UNS' Application and performed a cost of capital analysis to
22 determine a fair rate of return on the Company's invested capital. In

¹ NYSE ticker symbol UNS.

1 addition to my recommended capital structure, my direct testimony will
2 present my recommended costs of common equity and my recommended
3 cost of debt (the Company has no preferred stock). The
4 recommendations contained in this testimony are based on information
5 obtained from Company responses to data requests, the Company's
6 Application and from market-based research that I conducted during my
7 analysis.

8
9 Q. Is this your first case involving UNS?

10 A. No. In 2003 I was involved with UniSource's acquisition of UniSource
11 Energy Corporation's gas and electric assets from Citizens' Utilities
12 Company. The UNS entity was the result of that acquisition and the
13 Company's present rates were established in that proceeding.

14
15 Q. Were you also responsible for conducting an analysis on the Company's
16 proposed revenue level, rate base and rate design?

17 A. No. RUCO witnesses Marylee Diaz Cortez, CPA, and Rodney L. Moore
18 handled those aspects of the Company's Application.

19
20 Q. What areas will you address in your testimony?

21 A. I will address the cost of capital issues associated with the case.
22
23

1 Q. Please identify the exhibits that you are sponsoring.

2 A. I am sponsoring Schedules WAR-1 through WAR-9.

3

4 **SUMMARY OF TESTIMONY AND RECOMMENDATIONS**

5 Q. Briefly summarize how your cost of capital testimony is organized.

6 A. My cost of capital testimony is organized into seven sections. First, the
7 introduction I have just presented and second, the summary of my
8 testimony that I am about to give. Third, I will present the findings of my
9 cost of equity capital analysis, which utilized both the discounted cash flow
10 ("DCF") method, and the capital asset pricing model ("CAPM"). These are
11 the two methods that RUCO and ACC Staff have consistently used for
12 calculating the cost of equity capital in rate case proceedings in the past,
13 and are the methodologies that the ACC has given the most weight to in
14 setting allowed rates of returns for utilities that operate in the Arizona
15 jurisdiction. In this second section I will also provide a brief overview of
16 the current economic climate that UNS is operating in. Fourth, I will
17 discuss my recommended cost of debt. Fifth, I will compare my
18 recommended capital structure with the Company-proposed capital
19 structure. Sixth, I will explain my weighted cost of capital recommendation
20 and seventh, I will comment on UNS' cost of capital testimony. Schedules
21 WAR-1 through WAR-9 will provide support for my cost of capital analysis.

22

1 Q. Please summarize the recommendations and adjustments that you will
2 address in your testimony.

3 A. Based on the results of my analysis of UNS, I am making the following
4 recommendations:

5
6 Cost of Equity Capital – I am recommending a 9.64 percent cost of equity
7 capital. This 9.64 percent figure is based on the results that I obtained in
8 my cost of equity analysis, which employed both the DCF and CAPM
9 methodologies.

10
11 Cost of Debt – I am recommending 6.23 percent cost of debt. This is
12 based on my review of the costs associated with UNS' various debt
13 instruments.

14
15 Capital Structure – I am recommending that the Company-proposed
16 capital structure, which is comprised of 50 percent debt and 50 percent
17 common equity, be adopted by the Commission.

18
19 Cost of Capital – Based on the results of my recommended capital
20 structure, cost of common equity, and debt analyses, I am recommending
21 a 7.93 percent cost of capital for UNS. This figure represents the
22 weighted cost of my recommended cost of common equity and my
23 recommended cost of debt.

1 Q. Why do you believe that your recommended 7.93 percent cost of capital is
2 an appropriate rate of return for UNS to earn on its invested capital?

3 A. The 7.93 percent cost of capital figure that I have recommended meets
4 the criteria established in the landmark Supreme Court cases of Bluefield
5 Water Works & Improvement Co. v. Public Service Commission of West
6 Virginia (262 U.S. 679, 1923) and Federal Power Commission v. Hope
7 Natural Gas Company (320 U.S. 391, 1944). Simply stated, these two
8 cases affirmed that a public utility that is efficiently and economically
9 managed is entitled to a return on investment that instills confidence in its
10 financial soundness, allows the utility to attract capital, and also allows the
11 utility to perform its duty to provide service to ratepayers. The rate of
12 return adopted for the utility should also be comparable to a return that
13 investors would expect to receive from investments with similar risk.

14 The Hope decision allows for the rate of return to cover both the operating
15 expenses and the "capital costs of the business" which includes interest
16 on debt and dividend payment to shareholders. This is predicated on the
17 belief that, in the long run, a company that cannot meet its debt obligations
18 and provide its shareholders with an adequate rate of return will not
19 continue to supply adequate public utility service to ratepayers.

1 Q. Do the Bluefield and Hope decisions indicate that a rate of return sufficient
2 to cover all operating and capital costs is guaranteed?

3 A. No. Neither case *guarantees* a rate of return on utility investment. What
4 the Bluefield and Hope decisions *do allow*, is for a utility to be provided
5 with the *opportunity* to earn a reasonable rate of return on its investment.
6 That is to say that a utility, such as UNS, is provided with the opportunity
7 to earn an appropriate rate of return if the Company's management
8 exercises good judgment and manages its assets and resources in a
9 manner that is both prudent and economically efficient.

10

11 **COST OF EQUITY CAPITAL**

12 Q. What is your recommended cost of equity capital for UNS?

13 A. Based on the results of my DCF and CAPM analyses, which ranged from
14 8.74 percent to 11.36 percent for a sample of local distribution companies
15 ("LDC"), I am recommending a 9.64 percent cost of equity capital for UNS.
16 My recommended 9.64 percent figure represents an average of the results
17 of my DCF and CAPM analyses, which utilized a sample of publicly traded
18 natural gas local distribution companies ("LDC").

19

20

21

22 ...

23

1 **Discounted Cash Flow (DCF) Method**

2 Q. Please explain the DCF method that you used to estimate UNS' cost of
3 equity capital.

4 A. The DCF method employs a stock valuation model known as the constant
5 growth valuation model, that bears the name of Dr. Myron J. Gordon (i.e.
6 the Gordon model), the professor of finance who was responsible for its
7 development. Simply stated, the DCF model is based on the premise that
8 the current price of a given share of common stock is determined by the
9 present value of all of the future cash flows that will be generated by that
10 share of common stock. The rate that is used to discount these cash
11 flows back to their present value is often referred to as the investor's cost
12 of capital (i.e. the cost at which an investor is willing to forego other
13 investments in favor of the one that he or she has chosen).

14 Another way of looking at the investor's cost of capital is to consider it from
15 the standpoint of a company that is offering its shares of stock to the
16 investing public. In order to raise capital, through the sale of common
17 stock, a company must provide a required rate of return on its stock that
18 will attract investors to commit funds to that particular investment. In this
19 respect, the terms "cost of capital" and "investor's required return" are one
20 in the same. For common stock, this required return is a function of the
21 dividend that is paid on the stock. The investor's required rate of return
22 can be expressed as the percentage of the dividend that is paid on the

1 stock (dividend yield) plus an expected rate of future dividend growth.

2 This is illustrated in mathematical terms by the following formula:

3
4
$$k = (D_1 \div P_0) + g$$

5 where: k = the required return (cost of equity, equity
6 capitalization rate),

7 $D_1 \div P_0$ = the dividend yield of a given share of stock
8 calculated by dividing the expected dividend by
9 the current market price of the given share of
10 stock, and

11 g = the expected rate of future dividend growth.

12
13 This formula is the basis for the standard growth valuation model that I
14 used to determine UNS' cost of equity capital. It is similar to one of the
15 models used by the Company.

16
17 Q. In determining the rate of future dividend growth for UNS, what
18 assumptions did you make?

19 A. There are two primary assumptions regarding dividend growth that must
20 be made when using the DCF method. First, dividends will grow by a
21 constant rate into perpetuity, and second, the dividend payout ratio will
22 remain at a constant rate. Both of these assumptions are predicated on
23 the traditional DCF model's basic underlying assumption that a company's

earnings, dividends, book value and share growth all increase at the same constant rate of growth into infinity. Given these assumptions, if the dividend payout ratio remains constant, so does the earnings retention ratio (the percentage of earnings that are retained by the company as opposed to being paid out in dividends). This being the case, a company's dividend growth can be measured by multiplying its retention ratio (1 - dividend payout ratio) by its book return on equity. This can be stated as $g = b \times r$.

Q. Would you please provide an example that will illustrate the relationship that earnings, the dividend payout ratio and book value have with dividend growth?

A. RUCO consultant Stephen Hill illustrated this relationship in a Citizens Utilities Company 1993 rate case by using a hypothetical utility.²

Table I

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.25	\$11.70	4.00%
Equity Return	10%	10%	10%	10%	10%	N/A
Earnings/Sh.	\$1.00	\$1.04	\$1.082	\$1.125	\$1.170	4.00%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.649	\$0.675	\$0.702	4.00%

² Citizens Utilities Company, Arizona Gas Division, Docket No. E-1032-93-111, Prepared Testimony, dated December 10, 1993, p. 25.

1 Table I of Mr. Hill's illustration presents data for a five-year period on his
2 hypothetical utility. In Year 1, the utility had a common equity or book
3 value of \$10.00 per share, an investor-expected equity return of ten
4 percent, and a dividend payout ratio of sixty percent. This results in
5 earnings per share of \$1.00 (\$10.00 book value x 10 percent equity return)
6 and a dividend of \$0.60 (\$1.00 earnings/sh. x 0.60 payout ratio) during
7 Year 1. Because forty percent (1 - 0.60 payout ratio) of the utility's
8 earnings are retained as opposed to being paid out to investors, book
9 value increases to \$10.40 in Year 2 of Mr. Hill's illustration. Table I
10 presents the results of this continuing scenario over the remaining five-
11 year period.

12 The results displayed in Table I demonstrate that under "steady-state" (i.e.
13 constant) conditions, book value, earnings and dividends all grow at the
14 same constant rate. The table further illustrates that the dividend growth
15 rate, as discussed earlier, is a function of (1) the internally generated
16 funds or earnings that are retained by a company to become new equity,
17 and (2) the return that an investor earns on that new equity. The DCF
18 dividend growth rate, expressed as $g = b \times r$, is also referred to as the
19 internal or sustainable growth rate.

20
21
22 ...
23

Q. If earnings and dividends both grow at the same rate as book value, shouldn't that rate be the sole factor in determining the DCF growth rate?

A. No. Possible changes in the expected rate of return on either common equity or the dividend payout ratio make earnings and dividend growth by themselves unreliable. This can be seen in the continuation of Mr. Hill's illustration on a hypothetical utility.

Table II

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Growth</u>
Book Value	\$10.00	\$10.40	\$10.82	\$11.47	\$12.158	5.00%
Equity Return	10%	10%	15%	15%	15%	10.67%
Earnings/Sh	\$1.00	\$1.04	\$1.623	\$1.720	\$1.824	16.20%
Payout Ratio	0.60	0.60	0.60	0.60	0.60	N/A
Dividend/Sh	\$0.60	\$0.624	\$0.974	\$1.032	\$1.094	16.20%

In the example displayed in Table II, a sustainable growth rate of four percent³ exists in Year 1 and Year 2 (as in the prior example). In Year 3, Year 4 and Year 5, however, the sustainable growth rate increases to six percent.⁴ If the hypothetical utility in Mr. Hill's illustration were expected to earn a fifteen-percent return on common equity on a continuing basis, then a six percent long-term rate of growth would be reasonable. However, the compound growth rates for earnings and dividends, displayed in the last column, are 16.20 percent. If this rate were to be used in the DCF model, the utility's return on common equity would be

³ $[(\text{Year 2 Earnings/Sh} - \text{Year 1 Earnings/Sh}) \div \text{Year 1 Earnings/Sh}] = [(\$1.04 - \$1.00) \div \$1.00] = \$0.04 \div \$1.00 = \underline{4.00\%}$

⁴ $[(1 - \text{Payout Ratio}) \times \text{Rate of Return}] = [(1 - 0.60) \times 15.00\%] = 0.40 \times 15.00\% = \underline{6.00\%}$

1 expected to increase by fifty percent every five years, $[(15 \text{ percent} \div 10$
2 percent) - 1]. This is clearly an unrealistic expectation.

3 Although it is not illustrated in Mr. Hill's hypothetical example, a change
4 only in the dividend payout ratio will eventually result in a utility paying out
5 more in dividends than it earns. While it is not uncommon for a utility in
6 the real world to have a dividend payout ratio that exceeds one hundred
7 percent on occasion, it would be unrealistic to expect the practice to
8 continue over a sustained long-term period of time.

9

10 Q. Other than the retention of internally generated funds, as illustrated in Mr.
11 Hill's hypothetical example, are there any other sources of new equity
12 capital that can influence an investor's growth expectations for a given
13 company?

14 A. Yes, a company can raise new equity capital externally. The best
15 example of external funding would be the sale of new shares of common
16 stock. This would create additional equity for the issuer and is often the
17 case with utilities that are either in the process of acquiring smaller
18 systems or providing service to rapidly growing areas.

19

20 Q. How does external equity financing influence the growth expectations held
21 by investors?

22 A. Rational investors will put their available funds into investments that will
23 either meet or exceed their given cost of capital (i.e. the return earned on

1 their investment). In the case of a utility, the book value of a company's
2 stock usually mirrors the equity portion of its rate base (the utility's earning
3 base). Because regulators allow utilities the opportunity to earn a
4 reasonable rate of return on rate base, an investor would take into
5 consideration the effect that a change in book value would have on the
6 rate of return that he or she would expect the utility to earn. If an investor
7 believes that a utility's book value (i.e. the utility's earning base) will
8 increase, then he or she would expect the return on the utility's common
9 stock to increase. If this positive trend in book value continues over an
10 extended period of time, an investor would have a reasonable expectation
11 for sustained long-term growth.

12
13 Q. Please provide an example of how external financing affects a utility's
14 book value of equity.

15 A. As I explained earlier, one way that a utility can increase its equity is by
16 selling new shares of common stock on the open market. If these new
17 shares are purchased at prices that are higher than those shares sold
18 previously, the utility's book value per share will increase in value. This
19 would increase both the earnings base of the utility and the earnings
20 expectations of investors. However, if new shares sold at a price below
21 the pre-sale book value per share, the after-sale book value per share
22 declines in value. If this downward trend continues over time, investors
23 might view this as a decline in the utility's sustainable growth rate and will

1 have lower expectations regarding growth. Using this same logic, if a new
2 stock issue sells at a price per share that is the same as the pre-sale book
3 value per share, there would be no impact on either the utility's earnings
4 base or investor expectations.

5
6 Q. Please explain how the external component of the DCF growth rate is
7 determined.

8 A. In his book, *The Cost of Capital to a Public Utility*,⁵ Dr. Gordon (the
9 individual responsible for the development of the DCF or constant growth
10 model) identified a growth rate that includes both expected internal and
11 external financing components. The mathematical expression for Dr.
12 Gordon's growth rate is as follows:

13
14
$$g = (br) + (sv)$$

15 where: g = DCF expected growth rate,
16 b = the earnings retention ratio,
17 r = the return on common equity,
18 s = the fraction of new common stock sold that
19 accrues to a current shareholder, and
20 v = funds raised from the sale of stock as a fraction
21 of existing equity.
22 and $v = 1 - [(BV) \div (MP)]$

⁵ Gordon, M.J., *The Cost of Capital to a Public Utility*, East Lansing, MI: Michigan State University, 1974, pp. 30-33.

1 where: BV = book value per share of common stock, and
2 MP = the market price per share of common stock.

3

4 Q. Did you include the effect of external equity financing on long-term growth
5 rate expectations in your analysis of expected dividend growth for the DCF
6 model?

7 A. Yes. The external growth rate estimate (sv) is displayed on Page 1 of
8 Schedule WAR-4, where it is added to the internal growth rate estimate
9 (br) to arrive at a final sustainable growth rate estimate.

10

11 Q. Please explain why your calculation of external growth on page 2 of
12 Schedule WAR-4, is the current market-to-book ratio averaged with 1.0 in
13 the equation $[(M \div B) + 1] \div 2$.

14 A. The market price of a utility's common stock will tend to move toward book
15 value, or a market-to-book ratio of 1.0, if regulators allow a rate of return
16 that is equal to the cost of capital (one of the desired effects of regulation).
17 As a result of this situation, I used $[(M \div B) + 1] \div 2$ as opposed to the
18 current market-to-book ratio by itself to represent investor's expectations
19 that, in the future, a given utility will achieve a market-to-book ratio of 1.0.

20

21

22 ...

23

1 Q. Has the Commission ever adopted a cost of capital estimate that included
2 this assumption?

3 A. Yes. In the most recent Southwest Gas Corporation rate case⁶, the
4 Commission adopted the recommendations of ACC Staff's cost of capital
5 witness, Stephen Hill, who I noted earlier in my testimony. In that case,
6 Mr. Hill used the same methods that I have used in arriving at the inputs
7 for the DCF model. His final recommendation for Southwest Gas
8 Corporation was largely based on the results of his DCF analysis, which
9 incorporated the same valid market-to-book ratio assumption that I have
10 used consistently in the DCF model as a cost of capital witness for RUCO.

11

12 Q. How did you develop your dividend growth rate estimate?

13 A. I analyzed data on a natural gas proxy group consisting of ten LDC's that
14 have similar operating characteristics to UNS.

15

16 Q. Why did you use a proxy group methodology as opposed to a direct
17 analysis of UNS?

18 A. One of the problems in performing this type of analysis is that the utility
19 applying for a rate increase is not always a publicly traded company, as is
20 the case with UNS itself. Although shares of UNS' parent company,
21 UniSource, are traded on the NYSE, there is no financial data available on
22 dividends paid on *publicly held* shares of UNS. Consequently it was

⁶ Decision No. 68487, Dated February 23, 2006 (Docket No. G-01551A-04-0876)

1 necessary to create a proxy by analyzing publicly traded water companies
2 with similar risk characteristics.

3
4 Q. Are there any other advantages to the use of a proxy?

5 A. Yes. As I noted earlier, the U.S. Supreme Court ruled in the Hope
6 decision that a utility is entitled to earn a rate of return that is
7 commensurate with the returns on investments of other firms with
8 comparable risk. The proxy technique that I have used derives that rate of
9 return. One other advantage to using a sample of companies is that it
10 reduces the possible impact that any undetected biases, anomalies, or
11 measurement errors may have on the DCF growth estimate.

12
13 Q. What criteria did you use in selecting the companies that make up your
14 proxy for UNS?

15 A. All of the LDC's in my sample are publicly traded on the NYSE and are
16 followed by The Value Line Investment Survey's ("Value Line") natural gas
17 (distribution) industry segment. All of the companies in the proxy are
18 engaged in the provision of regulated natural gas distribution services.
19 Attachment A of my testimony contains Value Line's most recent
20 evaluation of the natural gas proxy group that I used for my cost of
21 common equity analysis.

1 Q. What companies are included your proxy?

2 A. The ten natural gas LDC's included in my proxy (and their NYSE ticker
3 symbols) are AGL Resources, Inc. ("ATG"), Atmos Energy Corp. ("ATO"),
4 Laclede Group, Inc. ("LG"), New Jersey Resources Corporation ("NJR"),
5 Nicor, Inc. ("GAS"), Northwest Natural Gas Co. ("NWN"), Piedmont
6 Natural Gas Company ("PNY"), South Jersey Industries, Inc. ("SJI")
7 Southwest Gas Corporation ("SWX"), which is the dominant natural gas
8 provider in Arizona, and WGL Holdings, Inc. ("WGL").

9

10 Q. Briefly describe the regions of the U.S. served by the seven natural gas
11 LDC's that make up your sample proxy.

12 A. The ten LDC's listed above provide natural gas service to customers in the
13 Middle Atlantic region (i.e. NJI which serves portions of northern New
14 Jersey, SJI which serves southern New Jersey and WGL which serves the
15 Washington D.C. metro area), the Southeast and South Central portions
16 of the U.S. (i.e. ATG which serves Virginia, southern Tennessee and the
17 Atlanta, Georgia area and PNY which serves customers in North Carolina,
18 South Carolina and Tennessee), the South, deep South and Midwest (i.e.
19 ATO which serves customers in Kentucky, Mississippi, Louisiana, Texas,
20 Colorado and Kansas, GAS which provides service to northern and
21 western Illinois, and LG which serves the St. Louis area), and the Pacific
22 Northwest (i.e. NWN which serves Washington state and Oregon).
23 Portions of Arizona, Nevada and California are served by SWX.

1 Q. Did the Company's witness also perform a similar analysis using natural
2 gas LDC's?

3 A. Yes, the Company's witness, Kentton C. Grant performed a similar
4 analysis of publicly traded LDC's.

5
6 Q. Does your sample of LDC's include all of the same companies that Dr.
7 Grant included in his sample?

8 A. No. My sample includes ten of the eleven LDC's that Mr. Grant included
9 in his sample. Mr. Grant's sample included Cascade Natural Gas
10 Corporation, which presently serves customers in Oregon and Washington
11 in the Pacific Northwest region of the U.S.

12
13 Q. Why did you exclude Cascade Natural Gas Corporation from your
14 sample?

15 A. On July 8, 2006, MDU Resources Group, Inc. (NYSE symbol MDU)
16 entered into a definitive merger agreement to acquire Cascade Natural
17 Gas Corp. (NYSE symbol CGC). Because the value of CGC's stock is
18 now being driven by MDU's acquisition offering price, it is no longer
19 suitable for my sample. As a result of this, I excluded CGC from my
20 sample.

21

22 ...

23

1 Q. Please explain your DCF growth rate calculations for the sample
2 companies used in your proxy.

3 A. Schedule WAR-5 provides retention ratios, returns on book equity, internal
4 growth rates, book values per share, numbers of shares outstanding, and
5 the compounded share growth for each of the utilities included in the
6 sample for the historical observation period 2001 to 2005. Schedule
7 WAR-5 also includes Value Line's projected 2006, 2007 and 2009-11
8 values for the retention ratio, equity return, book value per share growth
9 rate, and number of shares outstanding for the LDC's in my sample.

10
11 Q. Please describe how you used the information displayed in Schedule
12 WAR-5 to estimate each comparable utility's dividend growth rate.

13 A. In explaining my analysis, I will use AGL Resources, Inc., (NYSE symbol
14 ATG) as an example. The first dividend growth component that I
15 evaluated was the internal growth rate. I used the "b x r" formula
16 (described on pages 9 and 10) to multiply ATG's earned return on
17 common equity by its earnings retention ratio for each year in the 2001 to
18 2005 observation period to derive the utility's annual internal growth rates.
19 I used the mean average of this five-year period as a benchmark against
20 which I compared the projected growth rate trends provided by Value Line.
21 Because an investor is more likely to be influenced by recent growth
22 trends, as opposed to historical averages, the five-year mean noted earlier
23 was used only as a benchmark figure. As shown on Schedule WAR-5,

1 Page 1, ATG's sustainable internal growth rate ranged from 3.44% in
2 2001 to 6.53% in 2003. The company's growth rates experienced an up
3 and down pattern during the observation period, which resulted in a 5.49%
4 average over the 2001 to 2005 time frame. Value Line's analysts are
5 forecasting further declines through 2007 before growth reaches a level of
6 4.76% during the 2009-11 period. Value Line believes that earnings and
7 dividend growth projections will remain steady at 4.00% and 6.50%
8 respectively. Value Line, however, has increased its book value growth
9 projection upward from 6.00% to 6.50%. Based on these estimates I
10 believe a 4.25% rate of internal sustainable growth is reasonable for ATG.
11

12 Q. Please continue with the external growth rate component portion of your
13 analysis.

14 A. Schedule WAR-5 demonstrates that ATG's share growth averaged 8.97%
15 over the observation period. However, Value Line expects future
16 outstanding shares to increase slightly from 77.90 million in 2006 to 78.30
17 million by the end of 2011. Taking this data into consideration, I am
18 estimating a 0.13 rate of share growth for ATG. My final dividend growth
19 rate estimate for AWR is 4.31 percent (4.25 percent internal + 0.06
20 percent external) and is shown on Page 1 of Schedule WAR-4.
21

22 ...

1 Q. What is your average dividend growth rate estimate using the DCF model
2 for the sample natural gas utilities?

3 A. Based on the DCF model, my average dividend growth rate estimate is
4 5.28 percent, which is also displayed on page 1 of Schedule WAR-4.
5

6 Q. How do your average dividend growth rate estimates compare with the
7 growth rate data published by Value Line and other analysts?

8 A. My 5.28 percent estimate is 30 basis points higher than the consensus
9 projections published by Zacks, and 49 basis points higher than Value
10 Line's 4.79 percent projected estimates. As can also be seen on
11 Schedule WAR-6, the 5.28 percent estimate that I have calculated is 52
12 basis points higher than the 4.76 percent average of the 5-year EPS
13 means of 4.98 percent for Zacks, the 4.79 percent projection by Value
14 Line (which is an average of EPS, DPS and BVPS) and the 4.61 percent
15 five-year historical average of Value Line data (on EPS, DPS and BVPS).
16 In fact, my 5.28 percent estimate is 83 basis points higher than the 4.45
17 percent Value Line 5-year compound history also displayed on Schedule
18 WAR-6. This indicates that investors are expecting increased
19 performance from natural gas distribution companies in the future. Based
20 on the information presented in Schedule WAR-6, I would say that my
21 5.28 percent estimate, which exceeds both Zack's Value Line's
22 projections, is a fair representation of the growth projections presented by
23 securities analysts at this point in time.

1 Q. How did you calculate the dividend yields displayed in Schedule WAR-3?

2 A. I used the estimated annual dividends, for the next twelve-month period,
3 that appeared in Value Line's December 15, 2006 Ratings and Reports
4 natural gas (Distribution) update. I then divided those figures by the eight-
5 week average price per share of the appropriate utility's common stock.
6 The eight-week average price is based on the daily closing stock prices for
7 each of the companies in my proxies for the period November 27, 2006 to
8 January 19, 2007.

9

10 Q. Based on the results of your DCF analysis, what is your cost of equity
11 capital estimate for the LDC's included in your sample?

12 A. As shown in Schedule WAR-2, the cost of equity capital derived from my
13 DCF analysis is 8.74 percent.

14

15 **Capital Asset Pricing Model (CAPM) Method**

16 Q. Please explain the theory behind the capital asset pricing model ("CAPM")
17 and why you decided to use it as an equity capital valuation method in this
18 proceeding.

19 A. CAPM is a mathematical tool that was developed during the early 1960's
20 by William F. Sharpe⁷, the Timken Professor Emeritus of Finance at
21 Stanford University, who shared the 1990 Nobel Prize in Economics for

⁷ William F. Sharpe, "A Simplified Model of Portfolio Analysis," Management Science, Vol. 9, No. 2 (January 1963), pp. 277-93.

1 research that eventually resulted in the CAPM model. CAPM is used to
2 analyze the relationships between rates of return on various assets and
3 risk as measured by beta.⁸ In this regard, CAPM can help an investor to
4 determine how much risk is associated with a given investment so that he
5 or she can decide if that investment meets their individual preferences.
6 Finance theory has always held that as the risk associated with a given
7 investment increases, so should the expected rate of return on that
8 investment and vice versa. According to CAPM theory, risk can be
9 classified into two specific forms: nonsystematic or diversifiable risk, and
10 systematic or non-diversifiable risk. While nonsystematic risk can be
11 virtually eliminated through diversification (i.e. by including stocks of
12 various companies in various industries in a portfolio of securities),
13 systematic risk, on the other hand, cannot be eliminated by diversification.
14 Thus, systematic risk is the only risk of importance to investors. Simply
15 stated, the underlying theory behind CAPM states that the expected return
16 on a given investment is the sum of a risk-free rate of return plus a market
17 risk premium that is proportional to the systematic (non-diversifiable risk)
18 associated with that investment. In mathematical terms, the formula is as
19 follows:
20

⁸ Beta is defined as an index of volatility, or risk, in the return of an asset relative to the return of a market portfolio of assets. It is a measure of systematic or non-diversifiable risk. The returns on a stock with a beta of 1.0 will mirror the returns of the overall stock market. The returns on stocks with betas greater than 1.0 are more volatile or riskier than those of the overall stock market; and if a stock's beta is less than 1.0, its returns are less volatile or riskier than the overall stock market.

$$k = r_f + [\beta (r_m - r_f)]$$

where: k = cost of capital of a given security,
 r_f = risk-free rate of return,
 β = beta coefficient, a statistical measurement of a security's systematic risk,
 r_m = average market return (e.g. S&P 500), and
 $r_m - r_f$ = market risk premium.

Q. What security did you use for a risk-free rate of return in your CAPM analysis?

A. I used a six-week average on a 91-day Treasury Bill ("T-Bill") rate.⁹ This resulted in a risk-free (r_f) rate of return of 5.05 percent.

Q. Why did you use the short-term T-Bill rate as opposed to the yield on an intermediate 5-year Treasury note or a long-term 30-year Treasury bond?

A. Because a 91-day T-Bill presents the lowest possible total risk to an investor. As citizens and investors, we would like to believe that U.S. Treasury securities (which are backed by the full faith and credit of the United States Government) pose no threat of default no matter what their maturity dates are. However, a comparison of various Treasury instruments will reveal that those with longer maturity dates do have

⁹ A six-week average was computed for the current rate using 91-day T-Bill quotes listed in Value Line's Selection and Opinion newsletter from December 22, 2006 to January 26, 2007.

1 slightly higher yields. Treasury yields are comprised of two separate
2 components,¹⁰ a true rate of interest (believed to be approximately 2.00
3 percent) and an inflationary expectation. When the true rate of interest is
4 subtracted from the total treasury yield, all that remains is the inflationary
5 expectation. Because increased inflation represents a potential capital
6 loss, or risk, to investors, a higher inflationary expectation by itself
7 represents a degree of risk to an investor. Another way of looking at this
8 is from an opportunity cost standpoint. When an investor locks up funds in
9 long-term T-Bonds, compensation must be provided for future investment
10 opportunities foregone. This is often described as maturity or interest rate
11 risk and it can affect an investor adversely if market rates increase before
12 the instrument matures (a rise in interest rates would decrease the value
13 of the debt instrument). As discussed earlier in the DCF portion of my
14 testimony, this compensation translates into higher rates of returns to the
15 investor. Since a 91-day T-Bill presents the lowest possible total risk to an
16 investor, it more closely meets the definition of a risk-free rate of return
17 and is the more appropriate instrument to use in a CAPM analysis.

18
19
20 ...
21

¹⁰ As a general rule of thumb, there are three components that make up a given interest rate or rate of return on a security: the true rate of interest, an inflationary expectation, and a risk premium. The approximate risk premium of a given security can be determined by simply subtracting a 91-day T-Bill rate from the yield on the security.

1 Q. How did you calculate the market risk premium used in your CAPM
2 analysis?

3 A. I used both a geometric and an arithmetic mean of the historical returns on
4 the S&P 500 index from 1926 to 2005 as the proxy for the market rate of
5 return (r_m). The information was obtained from Ibbotson Associates' S&P
6 Yearbook, which publishes historical data on stock returns, U.S. Treasury
7 yields and rates of inflation. The risk premium ($r_m - r_f$) that results by using
8 the geometric mean calculation for r_m is equal to 5.35 percent (10.40% -
9 5.05% = 5.35%). The risk premium that results by using the arithmetic
10 mean calculation for r_m is 7.25 percent (12.30% - 5.05% = 7.25%).
11

12 Q. How did you select the beta coefficients that were used in your CAPM
13 model?

14 A. The beta coefficients (β), for the LDC's used in my proxy, were calculated
15 by Value Line and were current as of December 15, 2006. Value Line
16 calculates its betas by using a regression analysis between weekly
17 percentage changes in the market price of the security being analyzed
18 and weekly percentage changes in the NYSE Composite Index over a
19 five-year period. The betas are then adjusted by Value Line for their long-
20 term tendency to converge toward 1.00. The beta coefficients for the
21 LDC's included in my sample ranged from 0.70 to 1.30 with an average
22 beta of 0.87.
23

1 Q. What are the results of your CAPM analysis?

2 A. As shown on pages 1 and 2 of Schedule WAR-7, my CAPM calculation
3 using a geometric mean for r_m results in an average expected return of
4 9.70 percent. My calculation using an arithmetic mean results in an
5 average expected return of 11.36 percent.

6

7 Q. Please summarize the results derived under each of the methodologies
8 presented in your testimony.

9 A. The following is a summary of the cost of equity capital derived under
10 each methodology used:

11

<u>METHOD</u>	<u>RESULTS</u>
DCF	8.74%
CAPM	9.70% – 11.36%

15

16 Based on these results, my best estimate of an appropriate range for a
17 cost of common equity for UNS is 8.74 percent to 11.36 percent. My final
18 recommendation for UNS is 9.64 percent.

19

20 Q How did you arrive at your recommended 9.64 percent cost of common
21 equity?

22 A. My recommended 9.64 percent cost of common equity is the average of
23 my DCF and CAPM results. The calculation can be seen on Page 3 of
24 Schedule WAR-1.

1 Q. How does your recommended cost of equity capital compare with the cost
2 of equity capital proposed by the Company?

3 A. The 11.00 percent cost of equity capital proposed by the Company is 136
4 basis points higher than the 9.64 percent cost of equity capital that I am
5 recommending.

6

7 **Current Economic Environment**

8 Q. Please explain why it is necessary to consider the current economic
9 environment when performing a cost of equity capital analysis for a
10 regulated utility.

11 A. Consideration of the economic environment is necessary because trends
12 in interest rates, present and projected levels of inflation, and the overall
13 state of the U.S. economy determine the rates of return that investors earn
14 on their invested funds. Each of these factors represent potential risks
15 that must be weighed when estimating the cost of equity capital for a
16 regulated utility and are, most often, the same factors considered by
17 individuals who are investing in non-regulated entities also.

18

19 Q. Please discuss your analysis of the current economic environment.

20 A. My analysis includes a brief review of the economic events that have
21 occurred since 1990. Schedule WAR-8 displays various economic
22 indicators and other data that I will refer to during this portion of my
23 testimony.

1 In 1991, as measured by the most recently revised annual change in
2 gross domestic product ("GDP"), the U.S. economy experienced a rate of
3 growth of negative 0.20 percent. This decline in GDP marked the
4 beginning of a mild recession that ended sometime before the end of the
5 first half of 1992. Reacting to this situation, the Federal Reserve Board
6 ("Federal Reserve" or "Fed"), then chaired by noted economist Alan
7 Greenspan, lowered its benchmark federal funds rate¹¹ in an effort to
8 further loosen monetary constraints - an action that resulted in lower
9 interest rates.

10 During this same period, the nation's major money center banks followed
11 the Federal Reserve's lead and began lowering their interest rates as well.
12 By the end of the fourth quarter of 1993, the prime rate (the rate charged
13 by banks to their best customers) had dropped to 6.00 percent from a
14 1990 level of 10.01 percent. In addition, the Federal Reserve's discount
15 rate on loans to its member banks had fallen to 3.00 percent and short-
16 term interest rates had declined to levels that had not been seen since
17 1972.

18 Although GDP increased in 1992 and 1993, the Federal Reserve took
19 steps to increase interest rates beginning in February of 1994, in order to
20 keep inflation under control. By the end of 1995, the Federal discount rate

¹¹ The interest rate charged by banks with excess reserves at a Federal Reserve district bank to banks needing overnight loans to meet reserve requirements. The federal funds rate is the most sensitive indicator of the direction of interest rates, since it is set daily by the market, unlike the prime rate and the discount rate, which are periodically changed by banks and by the Federal Reserve Board, respectively.

1 had risen to 5.21 percent. Once again, the banking community followed
2 the Federal Reserve's moves. The Fed's strategy, during this period, was
3 to engineer a "soft landing." That is to say that the Federal Reserve
4 wanted to foster a situation in which economic growth would be stabilized
5 without incurring either a prolonged recession or runaway inflation.

6 Q. Did the Federal Reserve achieve its goals during this period?

7 A. Yes. The Fed's strategy of decreasing interest rates to stimulate the
8 economy worked. The annual change in GDP began an upward trend in
9 1992. A change of 4.50 percent and 4.20 percent were recorded at the
10 end of 1997 and 1998 respectively. Based on daily reports that were
11 presented in the mainstream print and broadcast media during most of
12 1999, there appeared to be little doubt among both economists and the
13 public at large that the U.S. was experiencing a period of robust economic
14 growth highlighted by low rates of unemployment and inflation. Investors,
15 who believed that technology stocks and Internet company start-ups (with
16 little or no history of earnings) had high growth potential, purchased these
17 types of issues with enthusiasm. These types of investors, who exhibited
18 what former Chairman Greenspan described as "irrational exuberance,"
19 pushed stock prices and market indexes to all time highs from 1997 to
20 2000.

21
22 ...
23

1 Q. What has been the state of the economy since 2001?

2 A. The U.S. economy entered into a recession near the end of the first
3 quarter of 2001. The bullish trend, which had characterized the last half of
4 the 1990's, had already run its course sometime during the third quarter of
5 2000. Economic data released since the beginning of 2001 had already
6 been disappointing during the months preceding the September 11, 2001
7 terrorist attacks on the World Trade Center and the Pentagon. Slower
8 growth figures, rising layoffs in the high technology manufacturing sector,
9 and falling equity prices (due to lower earnings expectations) prompted
10 the Fed to begin cutting interest rates as it had done in the early 1990's.
11 The now infamous terrorist attacks on New York City and Washington
12 D.C. marked a defining point in this economic slump and prompted the
13 Federal Reserve to continue its rate cutting actions through December
14 2001. Prior to the 9/11 attacks, commentators, reporting in both the
15 mainstream financial press and various economic publications including
16 Value Line, believed that the Federal Reserve was cutting rates in the
17 hope of avoiding the recession that the U.S. now appears to have
18 recovered from from.

19 Despite several intervals during 2002 and 2003 in which the Federal Open
20 Market Committee ("FOMC") decided not to change interest rates, moves
21 which indicated that the worst may be over and that the current recession
22 might have bottomed out during the last quarter of 2001, a lackluster
23 economy persisted. The continuing economic malaise and even fears of

1 possible deflation prompted the FOMC to make a thirteenth rate cut on
2 June 25, 2003. The quarter point cut reduced the federal funds rate to
3 1.00 percent, the lowest level in 45 years.

4 Even though some signs of economic strength, that were mainly attributed
5 to consumer spending, began to crop up during the latter part of 2002 and
6 into 2003, Chairman Greenspan appeared to be concerned with sharp
7 declines in capital spending in the business sector.

8 During the latter part of 2003, the FOMC went on record as saying that it
9 intended to leave interest rates low "for a considerable period." After its
10 two-day meeting that ended on January 28, 2004, the FOMC announced
11 "that with inflation 'quite low' and plenty of excess capacity in the
12 economy, policy-makers 'can be patient in removing its policy
13 accommodation."¹²

14
15 Q. What actions has the Federal Reserve taken in terms of interest rates
16 since the beginning of 2001?

17 A. As noted earlier, from January 2001 to June 2003 the Federal Reserve cut
18 interest rates a total of thirteen times. During this period, the federal funds
19 rate fell from 6.50 percent to 1.00 percent. The FOMC reversed this trend
20 on June 29, 2004 and raised the federal funds rate 25 basis points to 1.25
21 percent. From June 29, 2004 to January 31, 2006, the FOMC raised the
22 federal funds rate thirteen more times to a level of 4.50 percent.

¹² Wolk, Martin, "Fed leaves short-term rates unchanged," MSNBC, January 28, 2004.

1 The FOMC's January 31, 2006 meeting marked the final appearance of
2 Alan Greenspan, who had presided over the rate setting body for a total of
3 eighteen years. On that same day, Greenspan's successor, Ben
4 Bernanke, the former chairman of the President's Council of Economic
5 Advisers and a former Fed governor under Greenspan from 2002 to 2005,
6 was confirmed by the U.S. Senate to be the new Federal Reserve chief.
7 As expected by Fed watchers, Chairman Bernanke picked up where his
8 predecessor left off and increased the federal funds rate by 25 basis
9 points during each of the next three FOMC meetings for a total of
10 seventeen consecutive rate increases since June 2004, and raising the
11 federal funds rate to its current level of 5.25 percent. The Fed's rate
12 increase campaign finally came to a halt at the FOMC meeting held on
13 August 8, 2006, when the FOMC decided not to raise rates.

14
15 Q. What has been the reaction in the financial community to the Fed's
16 decision not to raise interest rates?

17 A. As in the past, banks followed the Fed's lead once again and held the
18 prime rate to a level of 8.25 percent, or 300 basis points higher than the
19 existing federal funds rate of 5.25 percent, where it has stood since June
20 29, 2006.

21
22 ...
23

1 Q. How have analysts viewed the Fed's actions over the last five years?

2 A. According to an article that appeared in the December 2, 2004 edition of
3 The Wall Street Journal, the FOMC's decision to begin raising rates two
4 years ago was viewed as a move to increase rates from emergency lows
5 in order to avoid creating an inflation problem in the future as opposed to
6 slowing down the strengthening economy.¹³ In other words, the Fed was
7 trying to head off inflation *before* it became a problem. During the period
8 following the August 8, 2006 FOMC meeting, the Fed's decisions not to
9 raise rates were viewed as a gamble that a slower U.S. economy would
10 help to cap growing inflationary pressures.¹⁴

11

12 Q. Was the Fed attempting to engineer another "soft landing", as it did in the
13 mid-nineties, by holding interest rates steady?

14 A. Yes, however, as pointed out in an August 2006 article in The Wall Street
15 Journal by E.S. Browning, soft landings, like the one that the Fed
16 managed to pull off during the 1994 – 1995 time frame, in which a
17 recession or a bear market were avoided rarely happen¹⁵. Since it began
18 increasing the federal funds rate in June 2004, the Fed has assured
19 investors that it would increase rates at a "measured" pace. Many analysts

¹³ McKinnon, John D. and Greg IP, "Fed Raises Rates by a Quarter Point," The Wall Street Journal, September 22, 2004.

¹⁴ Ip, Greg, "Fed Holds Interest Rates Steady As Slowdown Outweighs Inflation," The Wall Street Journal Online Edition, August 8, 2006.

¹⁵ Browning, E.S, "Not Too Fast, Not Too Slow...", The Wall Street Journal Online Edition, August 21, 2006.

1 and economists interpreted this language to mean that former Chairman
2 Greenspan would be cautious in increasing interest rates too quickly in
3 order to avoid what is considered to be one of the Fed's few blunders
4 during Greenspan's tenure – a series of increases in 1994 that caught the
5 financial markets by surprise after a long period of low rates. The rapid
6 rise in rates contributed to the bankruptcy of Orange County, California
7 and the Mexican peso crisis¹⁶. According to Mr. Browning, the hope, at
8 the time that his article was published, was that Chairman Bernanke would
9 succeed in slowing the economy "just enough to prevent serious inflation,
10 but not enough to choke off growth." In other words, "a 'Goldilocks
11 economy,' in which growth is not too hot and not too cold."

12
13 Q. Has the Fed's attempt to engineer a soft landing been successful to date?

14 A. It would appear so. Recent articles published in the mainstream financial
15 press have been generally upbeat on the current economy. An example
16 of this is an article written by Nell Henderson that appeared in the January
17 30, 2007 edition of The Washington Post. According to Ms. Henderson, "a
18 year into [Fed Chairman] Bernanke's tenure, the [economic] picture has
19 turned considerably brighter. Inflation is falling; unemployment is low;
20 wages are rising; and the economy, despite continued problems in
21 housing, is growing at a brisk clip."¹⁷

22
¹⁶ Associated Press (AP), "Fed begins debating interest rates" USA Today, June 29, 2004.

¹⁷ Henderson, Nell, "Bullish on Bernanke" The Washington Post, January 30, 2007.

1 Q. Putting this all into perspective, how have the Fed's actions since 2001
2 affected benchmark rates?

3 A. Despite the increases by the FOMC, interest rates and yields on U.S.
4 Treasury instruments are for the most part still at historically low levels.
5 The Fed's actions have also had the overall effect of reducing the cost of
6 many types of business and consumer loans. As can be seen in Schedule
7 WAR-8, with the exception of the federal discount rate (the rate charged to
8 member banks), which has increased to 6.25 percent from 5.73 percent in
9 2000, the other key interest rates (i.e. the prime rate and the federal funds
10 rate) are still below their year-end 2000 levels.
11

12 Q. What has been the trend in other leading interest rates over the last year?

13 A. As of January 26, 2007, all of the leading interest rates have moved up.
14 The prime rate has increased from 7.25 percent a year ago to its current
15 level of 8.25 percent. The benchmark federal funds rate, just discussed,
16 has increased from 4.25 percent, in January 2006, to its current level of
17 5.25 percent (the result of the seventeen quarter point increases noted
18 earlier). The yields on all maturities of U.S. Treasury instruments have
19 increased over the past year. A previous trend, described by former
20 Chairman Greenspan as a "conundrum"¹⁸, in which long-term rates fell as
21 short-term rates increased, thus creating the inverted yield curve that
22 currently exists (Attachment B), appears to have ended. The 91-day T-bill

¹⁸ Wolk, Martin, "Greenspan wrestling with rate 'conundrum'," MSNBC, June 8, 2005.

1 rate, used in my CAPM analysis, increased from 4.35 percent, in January
2 2006, to 5.10 percent as of January 26, 2007. The 1-Year Treasury
3 Constant Maturity rate also increased from 4.42 percent over the past year
4 to 5.06 percent. Again, for the most part, these current yields are 73 to
5 285 basis points lower than corresponding yields that existed during the
6 early nineties (as can be seen on Schedule WAR-8).

7
8 Q. What is the current outlook for interest rates, inflation, and the economy?

9 A. Stability is the word that best sums up analyst's expectations for the
10 majority of 2007 according to an article by Peter A. McKay that appeared
11 in the January 29, 2007 issue of The Wall Street Journal¹⁹. Mr. McKay
12 reported on Fed watchers that have revised their expectations for a spring
13 rate cut and who now believe that the Fed will keep rates at their current
14 levels through the end of 2007. As expected, the Fed continued to hold
15 pat on interest rates during the FOMC meetings held on January 30 and
16 31, 2007, fulfilling the 98 percent expectancy by futures contracts that
17 track the likelihood of a Fed move (as noted in the McKay article).

18 The recent views of Value Line analysts, who anticipate lower rates of
19 inflation in the coming months, support the aforementioned outlook for
20 stable rates. In their Economic and Stock Market Commentary that
21 appeared in the February 2, 2007 edition of Value Line's Selection and
22 Opinion publication, Value Line's analyst's stated the following:

¹⁹ McKay, Peter A., "A Long Stretch of Steady Rates" The Wall Street Journal, January 29, 2007

1
2 "Inflation is likely to start trending lower over the next few quarters,
3 in part because the modest rate of GDP growth should cap the
4 the increases in demand for labor and raw materials. Moreover,
5 recent declines in oil prices will keep costs down for products that
6 are oil-based and for companies that are heavy users of electricity."

7
8 Q. Please summarize how the economic data just presented relates to UNS.

9 A. If Federal Reserve Chairman Bernanke continues to keep inflation in
10 check, and keep it contained within his preferred range of 1 to 2 percent²⁰,
11 UNS could look forward to relatively stable and even possibly declining
12 prices for goods and services, which in turn means that the Company can
13 expect its present operating expenses to either remain stable or possibly
14 decline in the coming years. Lower interest rates would also benefit UNS
15 in regard to any short or long-term borrowing needs that the Company
16 may have. Despite the recent slowdown in the housing market noted
17 earlier, lower interest rates would further help to accelerate growth in new
18 construction projects and home developments in the Company's service
19 territories, and may result in new revenue streams to UNS.

20
21 Q. After weighing the economic information that you've just discussed, do you
22 believe that the 9.64 percent cost of equity capital that you have estimated
23 is reasonable for UNS?

24 A. I believe that my recommended 9.64 percent cost of equity will provide
25 UNS with a reasonable rate of return on the Company's invested capital

²⁰ Ip, Greg, "Fed Minutes Indicate Inflation Still a Worry for Some Officials," The Wall Street Journal, February 22, 2006.

1 when economic data on interest rates (that are still low by historical
2 standards), a rebound in growth in new housing construction (attributed to
3 historically low interest rates), and a low and stable outlook for inflation are
4 all taken into consideration. As I noted earlier, the Hope decision
5 determined that a utility is entitled to earn a rate of return that is
6 commensurate with the returns it would make on other investments with
7 comparable risk. I believe that my DCF analysis has produced such a
8 return.

9
10 **COST OF DEBT**

11 Q. Have you reviewed UNS' testimony on the Company-proposed cost of
12 debt?

13 A. Yes, I have reviewed the testimony prepared by Mr. Grant.

14
15 Q. Briefly explain how UNS calculated the Company-proposed 6.60 percent
16 cost of debt.

17 A. The Company-proposed 6.60 percent cost of debt is comprised of
18 \$6,230,000 in annual interest on UNS' Series A and B bonds, \$201,000 in
19 amortized debt discount and expenses and losses attributed to reacquired
20 debt, and \$90,000 attributed to credit facility fees.

1 Q. Do you agree with Mr. Grant's inclusion of the amortized debt discount
2 and expenses and losses attributed to reacquired debt and the credit
3 facility fees to arrive at his final cost of debt figure of 6.60 percent?

4 A. No. I believe that these costs should have been expensed as opposed to
5 being included in the cost of debt. For this reason I am recommending
6 that the Commission adopt the 6.23 percent cost attributed to the annual
7 interest expense on the Company's Series A and B bonds as UNS' cost of
8 debt.

9

10 **CAPITAL STRUCTURE**

11 Q. Have you reviewed UNS' testimony regarding the Company's proposed
12 capital structure?

13 A. Yes, I have reviewed the direct testimony of Company witness Grant, who
14 testified on UNS' proposed capital structure, cost of debt and cost of
15 common equity.

16

17 Q. Please describe the Company's proposed capital structure.

18 A. The Company is proposing a hypothetical capital structure comprised of
19 50 percent debt and 50 percent common equity.

20

21 Q. What capital structure are you proposing for UNS?

22 A. I am also recommending a hypothetical capital structure comprised of 50
23 percent debt and 50 percent equity.

1 Q. Is UNS' actual capital structure in line with industry averages?

2 A. No. UNS' actual test year capital structure, comprised of approximately
3 55 percent debt and 45 percent common equity, is somewhat heavier in
4 debt than the capital structures of the LDC's included in my cost of capital
5 analysis (Schedule WAR-9). The capital structures for those utilities
6 averaged approximately 48 percent for debt and 52 percent for equity
7 (51.2 percent common equity + 0.8 percent preferred equity).

8
9 Q. In terms of risk, how does UNS' actual capital structure compare to the
10 LDC's in your sample?

11 A. The LDC's in my sample would be considered as having a lower level of
12 financial risk (i.e. the risk associated with debt repayment) because of
13 their lower levels of debt. The additional financial risk due to debt
14 leverage is embedded in the cost of equities derived for those companies
15 through the DCF analysis. Thus, the cost of equity derived in my DCF
16 analysis is applicable to companies that are not as leveraged and,
17 theoretically speaking, not as risky than a utility with a level of debt similar
18 to UNS'. In the case of a publicly traded company, such as those included
19 in my proxy, a company with UNS' level of debt would be perceived as
20 having a higher level of financial risk and would therefore also have a
21 higher expected return on common equity.

22

1 Q. Have you made an adjustment to your cost of equity estimate based on
2 this perception of higher financial risk?

3 A. No. Because I am recommending a capital structure that contains more
4 equity than what the Company actually had during the test year, I have
5 decided not to make an upward adjustment on my recommended 9.64
6 percent cost of common equity. The hypothetical capital structure of 50
7 percent debt and 50 percent common equity that I am recommending
8 provides the Company with a weighted cost of capital of 7.93 percent,
9 which is 18 basis points higher than the 7.75 percent that would result
10 from the Company's actual test year capital structure of approximately 55
11 percent debt and 45 percent common equity.

12
13 **WEIGHTED COST OF CAPITAL**

14 Q. How does the Company's proposed weighted cost of capital compare with
15 your recommendation?

16 A. The Company has proposed a weighted cost of capital of 8.80 percent.
17 This composite figure is the result of a weighted average of UNS'
18 proposed 6.60 percent cost of debt and 11.00 percent cost of common
19 equity. The Company-proposed 8.80 percent weighted cost of capital is
20 87 basis points higher than the 7.93 percent weighted cost that I am
21 recommending which is the weighted cost of my recommended 6.23
22 percent cost of debt and my recommended 9.64 percent cost of common
23 equity.

COMMENTS ON UNS' COST OF EQUITY CAPITAL TESTIMONY

Q. What methods did Mr. Grant use to arrive at his cost of common equity for UNS?

A. Mr. Grant used a DCF methodology and a CAPM methodology to estimate UNS' cost of common equity.

Q. Can you provide a comparison of the results derived from Mr. Grant's models and yours?

A. Yes.

DCF Comparison

Q. Were there any differences in the way that you conducted your DCF analysis and the way that Mr. Grant conducted his?

A. Yes, Mr. Grant relied on the results of a multi-stage DCF model, using the proxy of eleven LDC's that I described earlier in my testimony, as opposed to the single-stage constant growth model that I relied on using all but one of the LDC's in Mr. Grant's proxy group. Mr. Grant stated that his decision to rely solely on the multi-stage model was based on his belief that the single-stage constant growth model cannot be applied to companies having expected near-term growth rates that are significantly higher or lower than their long-term growth potential.

...

1 Q. Do you agree with Mr. Grant's rationale for not relying on the single-stage
2 DCF model?

3 A. No. The long-term growth rate that Mr. Grant is referring to is the 6.00
4 percent long-term projection of inflation-adjusted GDP, which is an
5 inflation adjusted-projection of the growth rate of the entire U.S. economy
6 as opposed to the regulated LDC's in his sample proxy. This is the long-
7 term growth rate that he uses in the second step of his multi-stage DCF
8 model. The use of such a growth estimate assumes that the long-term
9 growth rate for the LDC's in his sample will be the same growth rate of all
10 goods and services produced by labor and property in the U.S. A good
11 argument can be made that regulated utilities' long-term growth rates may
12 not actually mirror national GDP growth.

13

14 Q. Why didn't you conduct a multi-stage DCF analysis like the one conducted
15 by Mr. Grant?

16 A. Primarily because the growth rate component that I estimated for my
17 single-stage model already takes into consideration near-term and long-
18 term growth rate projections that are specific to the LDC's included in my
19 proxy.

20

21

22

23 ...

1 Q. What is the difference between Mr. Grant's DCF estimate and your DCF
2 estimate?

3 A. Mr. Grant's DCF high and low estimates, derived from his multi-stage
4 model, of 10.50 percent and 9.10 percent are 172 to 36 basis points
5 higher than the 8.74 percent cost of common equity derived from my DCF
6 analysis which is a mean average of the DCF estimates of the ten LDC's
7 in my proxy. A better comparison between his DCF estimates and mine is
8 a 9.80 percent mean average of his estimates that excludes Cascade
9 Natural Gas Corporation (whose price is now being driven by a merger
10 with MDU Resources Group, Inc.). This comparison produces a 106 basis
11 point difference between his estimate and mine.
12

13 Q. Does Mr. Grant provide an estimate that is based on the single-stage
14 model that you employed?

15 A. Not directly, however the exhibits contained in his testimony contain inputs
16 and estimates used in his multi-stage model that can also be used in the
17 single-stage model. Using the inputs and estimates that appear in Mr.
18 Grant's exhibits, a single-stage model (that excludes Cascade Natural
19 Gas Corporation) would produce a mean average estimate of 8.21 percent
20 or 53 basis points lower than my 8.74 percent estimate.
21

22 ...
23

1 Q. Have there been any changes in closing stock prices since Mr. Grant filed
2 his direct testimony?

3 A. Yes. The stock prices for the LDC's used in our proxies have increased
4 since Mr. Grant filed his direct testimony, thus producing lower dividend
5 yields. The difference between the average closing stock prices used in
6 my analysis and Mr. Grant's analysis are as follows:

	<u>Rigsby</u>	<u>Grant</u>	<u>Difference</u>
ATG	\$39.04	\$35.29	\$3.75
ATO	\$31.98	\$26.47	\$5.51
LG	\$35.45	\$33.86	\$1.59
NJR	\$49.52	\$44.84	\$4.68
GAS	\$47.56	\$39.71	\$7.85
NWN	\$41.59	\$34.42	\$7.17
PNY	\$27.21	\$24.28	\$2.93
SJI	\$33.08	\$26.58	\$6.50
SWX	\$38.14	\$26.58	\$11.56
WGL	\$32.56	\$29.43	\$3.13

18
19 The differences in our respective dividend yields are as follows:
20
21
22 ...
23

		<u>Rigsby</u>	<u>Grant</u>	<u>Difference</u>
1				
2	ATG	3.79%	4.28%	-0.49%
3	ATO	4.00%	4.85%	-0.85%
4	LG	4.01%	4.23%	-0.22%
5	NJR	2.91%	3.28%	-0.37%
6	GAS	3.91%	4.68%	-0.77%
7	NWN	3.41%	4.17%	-0.76%
8	PNY	3.53%	4.00%	-0.47%
9	SJI	2.72%	3.52%	-0.80%
10	SWX	2.15%	2.96%	-0.81%
11	WGL	4.15%	4.63%	-0.48%

12

13 When Mr. Grant's first year dividend estimates (i.e. the D_1 component of
14 the DCF model) are divided by my more recent closing stock prices (i.e.
15 the P_0 component of the DCF model) the resulting average dividend yield
16 is 3.50 percent, which is only slightly higher than my 3.46 percent result
17 exhibited in schedule WAR-3. The addition of a mean average of Mr.
18 Grant's lower 5-year growth (i.e. g) estimate of 4.15 percent for his sample
19 LDC's (again excluding Cascade Natural Gas Corporation) produces a
20 single-stage estimate of 7.65 percent, which is 56 basis points lower than
21 the 8.21 percent single-stage model figure that I noted earlier.

22 Based on this information it is fair to say that a single stage model using
23 updated stock prices, while holding Mr. Grant's other DCF component

1 estimates (with the exception of Cascade Natural Gas Corporation)
2 constant, would produce a lower single-stage DCF estimate than the one
3 that I have calculated.
4

5 **CAPM Comparison**

6 Q. Please describe the differences in the way that you conducted your CAPM
7 analysis and the way that Mr. Grant conducted his?

8 A. The main difference between Mr. Grant's CAPM analysis and mine is that
9 he relied solely on an arithmetic mean of the historical returns on the S&P
10 500 index from 1926 to 2005 as the proxy for the market rate of return (i.e.
11 r_m) in order to arrive at his market risk premium (i.e. $r_m - r_f$) in his CAPM
12 model.
13

14 Q. What financial instrument did Mr. Grant use as a proxy for the risk free
15 (i.e. r_f) rate in his CAPM model?

16 A. Mr. Grant used the yield to maturity on a 20-year U.S. Treasury bond,
17 which was 5.30 percent as of April 28, 2006.
18

19 Q. What is the current yield on a 20-year U.S. Treasury bond?

20 A. As of January 30, 2007 the yield on a 20-year U.S. Treasury bond had
21 fallen to 5.07 percent.
22

1 Q. Did Mr. Grant use the same Value Line betas that you used in your CAPM
2 analysis?

3 A. Yes. However Value Line's beta's for the LDC's in our proxies have
4 increased since Mr. Grant filed his direct testimony. The mean average of
5 the Value Line betas used by Mr. Grant (excluding Cascade Natural Gas
6 Corporation) is 0.81 as opposed to my average beta of 0.87, which was
7 current as of December 15, 2006.

8
9 Q. What is the difference between Mr. Grant's CAPM estimate and your
10 CAPM estimate?

11 A. Mr. Grant's CAPM high and low estimates, derived from his arithmetic
12 mean model, of 9.9 percent and 11.70 percent are 146 basis points lower
13 to 34 basis points higher than the 11.36 percent cost of common equity
14 derived from my arithmetic mean CAPM analysis which is a mean average
15 of the ten LDC's in my proxy. Mr. Grant's CAPM high and low estimates
16 of 9.9 percent and 11.70 percent are 20 to 200 basis points higher than
17 the 9.70 percent cost of common equity derived from my geometric mean
18 CAPM analysis. Again, as with the DCF model, a better comparison
19 between his CAPM estimates and mine is an 11.02 percent mean average
20 of his estimates that excludes Cascade Natural Gas Corporation. This
21 comparison produces a difference of 132 basis points higher to 34 basis
22 points lower than the results produced by my geometric and arithmetic
23 mean CAPM models respectively.

Final Cost of Equity Estimate

Q. How did Mr. Grant arrive at his final estimate of 11.00 percent for UNS?

A. Mr. Grant's final 11.00 percent recommendation is based on his belief that UNS should be awarded a return on equity that is at the upper range of his estimates given a number of factors that include UNS' size, the level of customer growth the Company faces, historical test-year concept, the fact that many of the LDC's in his proxy have decoupling mechanisms, and the lower credit rating of UNS.

Q. Do you believe that UNS should be awarded a higher return on equity based on the factors cited by Mr. Grant?

A. No. The Commission in prior cases has rejected many of the factors cited by Mr. Grant. This includes such issues such as company size, customer growth, and the historic test year concept. In regard to the decoupling mechanism cited by Mr. Grant, it is interesting that he has not recognized the fact that the implementation of such a mechanism, which the Company has requested in this case, would certainly merit a lower return on common equity for UNS given the fact that it would remove the risk associated with operating income volatility.

...

1 Q. Does your silence on any of the issues, matters or findings addressed in
2 the testimony of Mr. Grant or any other witness for UNS constitute your
3 acceptance of their positions on such issues, matters or findings?

4 A. No, it does not.

5

6 Q. Does this conclude your testimony on UNS?

7 A. Yes, it does.

APPENDIX 1

Qualifications of William A. Rigsby, CRRA

EDUCATION:

University of Phoenix
Master of Business Administration, Emphasis in Accounting, 1993

Arizona State University
College of Business
Bachelor of Science, Finance, 1990

Mesa Community College
Associate of Applied Science, Banking and Finance, 1986

Society of Utility and Regulatory Financial Analysts
38th Annual Financial Forum and CRRA Examination
Georgetown University Conference Center, Washington D.C.
Awarded the Certified Rate of Return Analyst designation
after successfully completing SURFA's CRRA examination.

Michigan State University
Institute of Public Utilities
N.A.R.U.C. Annual Regulatory Studies Program, 1997 & 1999

Florida State University
Center for Professional Development & Public Service
N.A.R.U.C. Annual Western Utility Rate School, 1996

EXPERIENCE:

Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona
April 2001 – Present

Senior Rate Analyst
Accounting & Rates - Financial Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
July 1999 – April 2001

Senior Rate Analyst
Residential Utility Consumer Office
Phoenix, Arizona
December 1997 – July 1999

Utilities Auditor II and III
Accounting & Rates – Revenue Requirements Analysis Unit
Arizona Corporation Commission, Utilities Division
Phoenix, Arizona
October 1994 – November 1997

Tax Examiner Technician I / Revenue Auditor II
Arizona Department of Revenue
Transaction Privilege / Corporate Income Tax Audit Units
Phoenix, Arizona
July 1991 – October 1994

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
ICR Water Users Association	U-2824-94-389	Original CC&N
Rincon Water Company	U-1723-95-122	Rate Increase
Ash Fork Development Association, Inc.	E-1004-95-124	Rate Increase
Parker Lakeview Estates Homeowners Association, Inc.	U-1853-95-328	Rate Increase
Mirabell Water Company, Inc.	U-2368-95-449	Rate Increase
Bonita Creek Land and Homeowner's Association	U-2195-95-494	Rate Increase
Pineview Land & Water Company	U-1676-96-161	Rate Increase
Pineview Land & Water Company	U-1676-96-352	Financing
Montezuma Estates Property Owners Association	U-2064-96-465	Rate Increase
Houghland Water Company	U-2338-96-603 et al	Rate Increase
Sunrise Vistas Utilities Company – Water Division	U-2625-97-074	Rate Increase
Sunrise Vistas Utilities Company – Sewer Division	U-2625-97-075	Rate Increase
Holiday Enterprises, Inc. dba Holiday Water Company	U-1896-97-302	Rate Increase
Gardener Water Company	U-2373-97-499	Rate Increase
Cienega Water Company	W-2034-97-473	Rate Increase
Rincon Water Company	W-1723-97-414	Financing/Auth. To Issue Stock
Vail Water Company	W-01651A-97-0539 et al	Rate Increase
Bermuda Water Company, Inc.	W-01812A-98-0390	Rate Increase
Bella Vista Water Company	W-02465A-98-0458	Rate Increase
Pima Utility Company	SW-02199A-98-0578	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Pineview Water Company	W-01676A-99-0261	WIFA Financing
I.M. Water Company, Inc.	W-02191A-99-0415	Financing
Marana Water Service, Inc.	W-01493A-99-0398	WIFA Financing
Tonto Hills Utility Company	W-02483A-99-0558	WIFA Financing
New Life Trust, Inc. dba Dateland Utilities	W-03537A-99-0530	Financing
GTE California, Inc.	T-01954B-99-0511	Sale of Assets
Citizens Utilities Rural Company, Inc.	T-01846B-99-0511	Sale of Assets
MCO Properties, Inc.	W-02113A-00-0233	Reorganization
American States Water Company	W-02113A-00-0233	Reorganization
Arizona-American Water Company	W-01303A-00-0327	Financing
Arizona Electric Power Cooperative	E-01773A-00-0227	Financing
360networks (USA) Inc.	T-03777A-00-0575	Financing
Beardsley Water Company, Inc.	W-02074A-00-0482	WIFA Financing
Mirabell Water Company	W-02368A-00-0461	WIFA Financing
Rio Verde Utilities, Inc.	WS-02156A-00-0321 et al	Rate Increase/ Financing
Arizona Water Company	W-01445A-00-0749	Financing
Loma Linda Estates, Inc.	W-02211A-00-0975	Rate Increase
Arizona Water Company	W-01445A-00-0962	Rate Increase
Mountain Pass Utility Company	SW-03841A-01-0166	Financing
Picacho Sewer Company	SW-03709A-01-0165	Financing
Picacho Water Company	W-03528A-01-0169	Financing
Ridgeview Utility Company	W-03861A-01-0167	Financing
Green Valley Water Company	W-02025A-01-0559	Rate Increase
Bella Vista Water Company	W-02465A-01-0776	Rate Increase
Arizona Water Company	W-01445A-02-0619	Rate Increase

RESUME OF RATE CASE AND REGULATORY PARTICIPATION (Cont.)

<u>Utility Company</u>	<u>Docket No.</u>	<u>Type of Proceeding</u>
Arizona-American Water Company	W-01303A-02-0867 et al.	Rate Increase
Arizona Public Service Company	E-01345A-03-0437	Rate Increase
Rio Rico Utilities, Inc.	WS-02676A-03-0434	Rate Increase
Qwest Corporation	T-01051B-03-0454	Renewed Price Cap
Chaparral City Water Company	W-02113A-04-0616	Rate Increase
Arizona Water Company	W-01445A-04-0650	Rate Increase
Tucson Electric Power	E-01933A-04-0408	Rate Review
Southwest Gas Corporation	G-01551A-04-0876	Rate Increase
Arizona-American Water Company	W-01303A-05-0405	Rate Increase
Black Mountain Sewer Corporation	SW-02361A-05-0657	Rate Increase
Far West Water & Sewer Company	WS-03478A-05-0801	Rate Increase
Gold Canyon Sewer Company	SW-02519A-06-0015	Rate Increase
Arizona Public Service Company	E-01345A-05-0816	Rate Increase
Arizona-American Water Company	W-01303A-06-0014	Rate Increase
Arizona-American Water Company	W-01303A-05-0718	Transaction Approval

ATTACHMENT A

Natural Gas (Distribution) companies have entered their most profitable time of the year as the winter heating season is upon us. Utilities earn most of their profits during the December and March quarters. To reduce the volatility of earnings that may arise due to warmer-than-normal temperatures, many companies have applied for, and been granted, regulatory programs that not only protect against warmer weather, but also reduced gas consumption (discussed below). Some key features of owning gas utilities include their Safety ranks and better-than-average dividend yields, rather than price performance or appreciation potential.

Natural Gas Distribution

The distribution operations of gas utilities are regulated by state agencies, which set the allowed rates of return these companies are permitted to earn. They are considered natural monopolies since it is more cost-effective to build one pipeline system to serve a region, versus multiple distributors competing over the same location. As a result, utilities typically generate steady earnings that rise with population growth over time. In the event that profits fall below their allowed return-on-equity utilities can petition their state regulatory authority for rate relief, although there is a time lag before new rates are put in place, if approved.

New Rate Plans

Over the past year, there have been numerous gas distributors that have received decoupling mechanisms in various forms that protect against both warmer-than-normal temperatures and reduced consumption by customers due to conservation. This enables utilities to promote conservation and efficiency, while also protecting financial performance. The New Jersey Board of Public Utilities recently approved conservation incentive plans for both *New Jersey Resources* and *South Jersey Industries*. *WGL Holdings* has a revenue normalization clause in place to protect against these issues in its Maryland service territory. The company is seeking to implement a similar plan in its Virginia service territory and plans to file a rate case this upcoming spring to recover costs associated with the Prince George's County rehabilitation project. At *SEMCO Energy*, the company

INDUSTRY TIMELINESS: 88 (of 97)

received a rate increase of \$8.5 million based on a return on equity of 10.15%-11.15%. However this is below the \$18.1 million increase on a return on common equity of 11.9% that had been requested. Management plans to file a rebuttal shortly. Lastly, *Southern Union* has filed for a \$41.7 million rate increase in its Missouri service territory, and is seeking additional relief in its Massachusetts service area.

Nonutility Operations

Industry deregulation has allowed gas utilities to expand their businesses beyond their normal distribution operations. This includes retail energy marketing, energy trading, and oil and gas exploration and production. In fact, most companies in this industry have at least a small percentage of their profits derived from these activities, with many looking to expand their presence further. One benefit is that there is no cap on the allowed return on equity as compared to the regulated operations. However, some drawbacks include regulatory agencies being less inclined to approve rate increases, along with corporate boards possibly reducing the rate of dividend increases to use the funds for other growth investments.

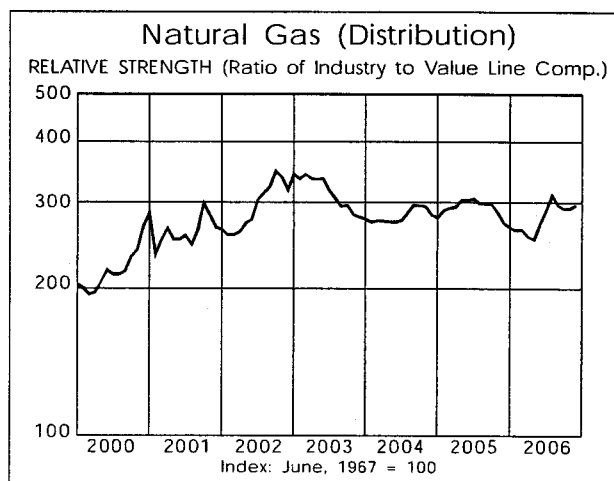
South Jersey Industries, through its Marina Energy subsidiary, is poised for growth out to late decade. The company is in the second phase of its expansion at the Borgata Hotel Casino & Spa, which is scheduled to be completed next year. In addition, Marina remains one of the finalists to co-own and operate a thermal facility to provide all the energy needs for a Las Vegas casino project.

Investment Advice

This industry caters to risk-averse investors, who look for an above-average dividend yield when choosing a stock. It should be noted that as the percentage of earnings derived from nonregulated operations grows, risk increases. Therefore, it is worthwhile for investors to decide whether or not they are willing to take on the additional risk. Note, however, that especially high dividend yields for stocks in this sector can mean that growth opportunities are constrained.

Evan I. Blatter

Composite Statistics: Natural Gas (Distribution)							
2002	2003	2004	2005	2006	2007		09-11
22947	29981	33220	41399	44500	49000	Revenues (\$mill)	58000
1231.5	1395.3	1517.2	1788.8	2000	2200	Net Profit (\$mill)	2800
35.3%	37.4%	35.7%	35.8%	36.0%	36.0%	Income Tax Rate	36.0%
5.4%	4.7%	4.6%	4.3%	4.5%	4.5%	Net Profit Margin	4.8%
57.8%	55.9%	53.2%	50.7%	52.0%	52.0%	Long-Term Debt Ratio	52.0%
41.4%	43.7%	45.7%	48.3%	46.0%	46.0%	Common Equity Ratio	46.0%
24907	28436	31268	33911	35400	36750	Total Capital (\$mill)	42000
25590	31732	32053	35030	37000	39000	Net Plant (\$mill)	45000
6.6%	6.4%	6.4%	6.9%	7.0%	7.0%	Return on Total Cap'l	7.5%
11.7%	11.1%	10.4%	10.7%	11.0%	11.5%	Return on Shr. Equity	12.0%
11.8%	11.2%	10.5%	10.8%	11.0%	11.5%	Return on Com Equity	12.0%
3.9%	4.1%	4.0%	4.4%	5.0%	5.2%	Retained to Com Eq	5.5%
68%	64%	63%	59%	61%	60%	All Div'ds to Net Prof	60%
14.8	14.1	15.6	16.2	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	13.0
.81	.80	.82	.87			Relative P/E Ratio	.85
4.5%	4.5%	4.0%	3.6%			Avg Ann'l Div'd Yield	4.6%
281%	314%	308%	331%	315%	330%	Fixed Charge Coverage	355%



AGL RESOURCES NYSE-ATG					RECENT PRICE	39.50	P/E RATIO	14.8 (Trailing: 13.3 Median: 14.0)	RELATIVE P/E RATIO	0.80	DIV'D YLD	4.0%	VALUE LINE								
TIMELINESS	4	Lowered 8/11/06	High: 20.0	22.0	21.6	23.4	23.4	23.2	24.5	25.0	29.3	33.7	39.3	40.0			Target Price	Range			
SAFETY	2	New 7/27/90	Low: 14.9	17.1	17.8	17.7	15.6	15.5	19.0	17.3	21.9	26.5	32.0	34.4			2009	2010	2011		
TECHNICAL	2	Raised 12/1/06	LEGENDS ----- 1.15 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 12/95 Options: Yes Shaded area indicates recession																		
BETA	.95	(1.00 = Market)																			
2009-11 PROJECTIONS																			128		
Price	Gain	Ann'l Total																	48		
High 50	(+25%)	9%																	40		
Low 35	(-10%)	1%																	32		
Insider Decisions																			24		
J	F	M	A	M	J	J	A	S											16		
to Buy	0	0	0	0	0	0	0	0											12		
Options	0	1	1	0	0	0	0	1													
to Sell	0	0	1	0	0	0	0	2													
Institutional Decisions																					
4Q2005	1Q2006	2Q2006	Percent shares traded	12															% TOT. RETURN 11/06		
to Buy	109	110	95	8															THIS STOCK	VL ARITH. INDEX	
to Sell	88	83	102	4															1 yr.	13.2	15.5
Hld's(1000)	49186	45106	49525																3 yr.	52.1	49.4
																			5 yr.	120.8	85.9
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11			
22.58	20.26	20.43	22.73	23.59	19.32	21.91	22.75	23.36	18.71	11.25	19.04	15.32	15.25	23.89	34.98	35.55	36.10	Revenues per sh ^A	38.30		
2.04	2.07	2.31	2.25	2.24	2.33	2.49	2.42	2.65	2.29	2.86	3.31	3.39	3.47	3.29	4.20	4.40	4.50	"Cash Flow" per sh	4.85		
1.01	1.04	1.13	1.08	1.17	1.33	1.37	1.37	1.41	.91	1.29	1.50	1.82	2.08	2.28	2.48	2.65	2.70	Earnings per sh ^{A,B}	2.90		
.98	1.02	1.03	1.04	1.04	1.04	1.06	1.08	1.08	1.08	1.08	1.08	1.08	1.11	1.15	1.30	1.50	1.58	Div'ds Decl'd per sh ^C	1.75		
2.73	2.95	2.74	2.49	2.37	2.17	2.37	2.59	2.05	2.51	2.92	2.83	3.30	2.46	3.44	3.44	3.20	3.10	Cap'l Spending per sh	2.25		
8.97	9.42	9.70	9.90	10.19	10.12	10.56	10.99	11.42	11.59	11.50	12.19	12.52	14.66	18.06	19.29	20.40	21.50	Book Value per sh ^D	25.10		
44.32	47.57	48.69	49.72	50.86	55.02	55.70	56.60	57.30	57.10	54.00	55.10	56.70	64.50	76.70	77.70	77.90	78.00	Common Shs Outst'g ^E	78.30		
14.2	15.3	15.5	17.9	15.1	12.6	13.8	14.7	13.9	21.4	13.6	14.6	12.5	12.5	13.1	14.3	14.7	15.0	Avg Ann'l P/E Ratio	15.0		
1.05	.98	.94	1.06	.99	.84	.86	.85	.72	1.22	.88	.75	.68	.71	.69	.76	.76	.76	Relative P/E Ratio	1.00		
6.8%	6.4%	5.9%	5.4%	5.9%	6.2%	5.6%	5.4%	5.5%	5.5%	6.2%	4.9%	4.7%	4.3%	3.9%	3.7%	3.7%	3.7%	Avg Ann'l Div'd Yield	4.0%		
CAPITAL STRUCTURE as of 9/30/06																					
Total Debt 2075.0 mill. Due in 5 Yrs \$530.0 mill.																			1220.2		
LT Debt \$1634.0 mill. LT Interest \$100.0 mill.																			1287.6		
(Total interest coverage: 4.4x)																			1338.6		
Leases, Uncapitalized Annual rentals \$27.0 mill.																			1068.6		
Pension Assets-12/05 \$371.0 mill. Oblig. \$464.0 mill.																			607.4		
Pfd Stock None																			1049.3		
Common Stock 77,696,090 shs. as of 10/20/06																			868.9		
MARKET CAP: \$3.1 billion (Mid Cap)																			983.7		
CURRENT POSITION 2004 2005 9/30/06 (\$MILL.)																			1832.0		
Cash Assets 49.0 30.0 14.0																			2718.0		
Other 1408.0 2002.0 1498.0																			2770		
Current Assets 1457.0 2032.0 1512.0																			2815		
Accts Payable 207.0 264.0 540.0																			Revenues (\$mill) ^A		
Debt Due 334.0 522.0 441.0																			205		
Other 936.0 1153.0 335.0																			210		
Current Liab. 1477.0 1939.0 1316.0																			Income Tax Rate		
Fix. Chg. Cov. 510% 442% 470%																			38.0%		
ANNUAL RATES																			Net Profit Margin		
Past 10 Yrs. Past 5 Yrs. Est'd '03-'05 of change (per sh) to '09-'11																			7.7%		
Revenues 1.0% 7.0% 7.5%																			Long-Term Debt Ratio		
"Cash Flow" 5.0% 7.0% 5.0%																			48.5%		
Earnings 6.5% 13.5% 4.0%																			Common Equity Ratio		
Dividends 1.5% 2.0% 6.5%																			51.5%		
Book Value 5.5% 8.5% 6.5%																			Total Capital (\$mill)		
QUARTERLY REVENUES (\$ mill.) ^A																			3310		
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year															3350	
2003	352.5	186.6	166.3	278.3	983.7															3450	
2004	651.0	294.0	262.0	625.0	1832.0															Return on Total Cap'l	
2005	908.0	430.0	387.0	993.0	2718.0															12.0%	
2006	1047.0	436.0	434.0	853	2770															Return on Shr. Equity	
2007	970	480	465	900	2815															12.0%	
EARNINGS PER SHARE ^{A,B}																			Retained to Com Eq		
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year															5.0%	
2003	.98	.29	.27	.54	2.08															All Div'ds to Net Prof	
2004	1.00	.33	.31	.64	2.28															59%	
2005	1.14	.30	.19	.85	2.48																
2006	1.41	.25	.46	.53	2.65																
2007	1.30	.37	.29	.74	2.70																
QUARTERLY DIVIDENDS PAID ^C																					
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																
2002	.27	.27	.27	.27	1.08																
2003	.27	.28	.28	.28	1.11																
2004	.28	.29	.29	.29	1.15																
2005	.31	.31	.31	.37	1.30																
2006	.37	.37	.37	.37																	

AGL Resources is on track to register solid earnings gains in 2006. The company reported earnings of \$0.46 a share in the third quarter, significantly ahead of the prior year. Most of the gains can be attributed to a strong performance at the company's Wholesale Services segment. The unit benefited from mark-to-market gains following the decline in NYMEX gas prices. This resulted in the recognition of \$38 million in gains compared to the loss of \$46 million last year when gas prices increased significantly. Since gas prices typically fluctuate over time, quarterly earnings should remain volatile at this unit.

The company is looking to reduce costs about 2%-3% at its distribution segment. Over the past few years, operating and maintenance costs per customer have decreased significantly thanks to numerous efficiency programs put in place. As another way to improve results, the company is looking to reduce customer attrition. Management believes it can achieve 0.8% growth this year and push the rate higher in the coming years.

No progress has been made on the Jefferson Island storage facility dispute since our last report. In August, the Louisiana Department of Natural Resources terminated the company's mineral lease. AGL Resources responded by filing suit in September against the state of Louisiana to maintain its lease and complete the project. Management is optimistic that a resolution can be reached, though the third cavern will likely not become operational until 2009 as a result of delays. In addition,

The company has signed an option to develop a salt dome in east Texas near the Gulf Coast. It has an estimated 12 billion cubic feet of working capacity. The location also provides the ability to connect to other pipelines in the area, along with potential LNG facilities that may come into the region. The first cavern, which would be about six bcf and similar in size to the Jefferson Island cavern, has the potential to be in operation by 2010.

Though untimely, this stock offers a good dividend yield. ATG shares offer only limited appreciation potential, but further expansion in nonregulated activities may well improve these prospects.

Evan I. Blatter
December 15, 2006

(A) Fiscal year ends December 31st. Ended September 30th prior to 2002.
 (B) Diluted earnings per share. Excl. nonrecurring gains (losses): '95, (\$0.63); '99, \$0.39; '00, \$0.13; '01, \$0.13; '03, (\$0.07). Next earnings report due late Jan.
 (C) Dividends historically paid early March, June, Sept, and Dec. ■ Div'd reinvest. plan available.
 (D) Includes intangibles. In 2005: \$422 million, \$5.43/share.
 (E) In millions, adjusted for stock split.
 Company's Financial Strength B++
 Stock's Price Stability 95
 Price Growth Persistence 70
 Earnings Predictability 75
To subscribe call 1-800-833-0046.

ATMOS ENERGY CORP. NYSE-ATO										RECENT PRICE	32.82	P/E RATIO	14.1	(Trailing: 17.9 Median: 16.0)	RELATIVE P/E RATIO	0.77	DIV'D YLD	3.9%	VALUE LINE
TIMELINESS	3	Raised 7/28/06	High: 23.0	31.0	30.5	32.3	33.0	26.3	25.8	24.5	25.5	27.6	30.0	33.1					Target Price Range
SAFETY	2	Raised 12/16/05	Low: 16.1	20.9	22.1	24.8	19.6	14.3	19.5	17.6	20.8	23.4	25.0	25.5					2009 2010 2011
TECHNICAL	2	Raised 11/17/06	LEGENDS																
BETA	.80	(1.00 = Market)	1.25 x Dividends p sh divided by Interest Rate																
2009-11 PROJECTIONS			3-for-2 split 5/94																
Ann'l Total			Options: No																
Price			Shaded area indicates recession																
Gain (+20%)																			
Gain (-10%)																			
Return 8%																			
Return 2%																			
Insider Decisions																			
J F M A M J J A S																			
to Buy 0 0 0 0 0 0 0 0 0																			
Options 0 0 0 0 0 0 0 0 0																			
to Sell 0 0 0 1 0 1 0 0 0																			
Institutional Decisions																			
4Q2005 1Q2006 2Q2006																			
to Buy 93 89 102																			
to Sell 91 84 67																			
Hld's(000) 43022 46004 46293																			
Percent shares traded																			
12																			
8																			
4																			
			</																

LACLEDE GROUP NYSE-LG										RECENT PRICE	36.70	P/E RATIO	15.2	(Trailing: 15.5 Median: 15.0)	RELATIVE P/E RATIO	0.83	DIV'D YLD	4.0%	VALUE LINE		
TIMELINESS	4	Raised 9/8/06	High: 23.1	24.9	28.6	27.9	27.0	24.8	25.5	25.0	30.0	32.5	34.3	37.5					Target Price Range		
SAFETY	2	Raised 6/20/03	Low: 18.4	20.0	20.3	22.4	20.0	17.5	21.3	19.0	21.8	26.0	26.9	29.1					2009 2010 2011		
TECHNICAL	3	Lowered 9/15/06	LEGENDS 1.00 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 3/94 Options: No Shaded area indicates recession																		
BETA	.90	(1.00 = Market)	2009-11 PROJECTIONS																		
			Price	Gain	Ann'l Total																
			45	(+25%)	Return																
			30	(-20%)	9%																
Insider Decisions			J	F	M	A	M	J	J	A	S										
to Buy			0	0	0	0	0	0	0	0	0										
Options			0	1	0	0	1	0	0	0	0										
to Sell			0	1	0	0	1	0	0	0	1										
Institutional Decisions			4Q2005	1Q2006	2Q2006																
to Buy			50	67	60																
to Sell			37	30	47																
Hld's(000)			8521	9470	10115																
			Percent shares traded				7.5	5	2.5												
															% TOT. RETURN 11/06						
															1 yr. 27.7						
															3 yr. 43.3						
															5 yr. 97.3						
															VL ANTHL INDEX						
															15.5						
															49.4						
															85.9						
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11			
30.21	28.10	26.83	32.33	33.43	24.79	31.03	34.33	31.04	26.04	29.99	53.08	39.84	54.95	59.59	75.43	92.90	88.35	Revenues per sh	116.65		
2.13	2.37	2.32	2.81	2.65	2.55	3.29	3.32	3.02	2.56	2.68	3.00	2.56	3.15	2.79	2.98	3.95	4.00	"Cash Flow" per sh	4.70		
1.08	1.28	1.17	1.61	1.42	1.27	1.87	1.84	1.58	1.47	1.37	1.61	1.18	1.82	1.82	1.90	2.37	2.15	Earnings per sh ^{A B}	2.50		
1.18	1.20	1.20	1.22	1.22	1.24	1.26	1.30	1.32	1.34	1.34	1.34	1.34	1.34	1.35	1.37	1.40	1.45	Div's Decl'd per sh ^C	1.55		
1.87	2.46	2.87	2.62	2.50	2.63	2.35	2.44	2.68	2.58	2.77	2.51	2.80	2.67	2.45	2.84	2.95	3.05	Cap'l Spending per sh	4.35		
11.75	11.83	11.79	12.19	12.44	13.05	13.72	14.26	14.57	14.96	14.99	15.26	15.07	15.65	16.96	17.31	18.85	20.65	Book Value per sh ^D	26.00		
15.59	15.59	15.59	15.59	15.67	17.42	17.56	17.56	17.63	18.88	18.88	18.88	18.96	19.11	20.98	21.17	21.50	21.50	Common Shs Outst'g ^E	24.00		
14.6	12.5	15.8	13.5	16.4	15.5	11.9	12.5	15.5	15.8	14.9	14.5	20.0	13.6	15.7	16.2	13.6	13.6	Avg Ann'l P/E Ratio	15.0		
1.08	.80	.96	.80	1.08	1.04	.75	.72	.81	.90	.74	.74	1.09	.78	.83	.86	.73	.73	Relative P/E Ratio	1.00		
7.5%	7.5%	6.5%	5.6%	5.3%	6.3%	5.6%	5.6%	5.4%	5.8%	6.6%	5.7%	5.7%	5.4%	4.7%	4.4%	4.3%	4.3%	Avg Ann'l Div'd Yield	4.1%		
CAPITAL STRUCTURE as of 6/30/06						544.8	602.8	547.2	491.6	566.1	1002.1	755.2	1050.3	1250.3	1597.0	1997.5	1900	Revenues (\$mill) ^A	2800		
Total Debt \$518.8 mill. Due in 5 Yrs \$175.0 mill.						32.8	32.5	27.9	26.9	26.0	30.5	22.4	34.6	36.1	40.1	50.5	46.0	Net Profit (\$mill)	60.0		
LT Debt \$395.4 mill. LT Interest \$25.0 mill.						35.9%	36.1%	35.6%	35.5%	35.2%	32.7%	35.4%	35.0%	34.8%	34.1%	32.5%	33.5%	Income Tax Rate	35.0%		
(Total interest coverage: 3.0x)						6.0%	5.4%	5.1%	5.5%	4.6%	3.0%	3.0%	3.3%	2.9%	2.5%	2.5%	2.4%	Net Profit Margin	2.1%		
Leases, Uncapitalized Annual rentals \$1.7 mill.						42.5%	38.0%	40.9%	41.8%	45.2%	49.5%	47.5%	50.4%	51.6%	48.1%	49.5%	49.0%	Long-Term Debt Ratio	48.0%		
Pension Assets-9/05 \$272.8 mill.						57.1%	61.6%	58.6%	57.8%	54.5%	50.2%	52.3%	49.4%	48.3%	51.8%	50.5%	51.0%	Common Equity Ratio	52.0%		
Oblig. \$327.2 mill.						422.2	406.8	438.0	488.6	519.2	574.1	546.6	605.0	737.4	707.9	800	870	Total Capital (\$mill)	1200		
Pfd Stock \$.8 mill. Pfd Div'd \$.05 mill.						452.2	467.6	490.6	519.4	575.4	602.5	594.4	621.2	646.9	679.5	765	805	Net Plant (\$mill)	1030		
Common Stock 21,357,009 shs. as of 7/28/06						9.4%	9.7%	8.1%	7.1%	6.7%	6.9%	6.0%	7.4%	6.6%	7.7%	8.0%	7.0%	Return on Total Cap'l	6.5%		
MARKET CAP: \$775 million (Small Cap)						13.5%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.5%	10.1%	10.9%	12.5%	10.5%	Return on Shr. Equity	9.5%		
						13.6%	12.9%	10.8%	9.5%	9.1%	10.5%	7.8%	11.6%	10.1%	10.9%	12.5%	10.5%	Return on Com Equity	9.5%		
						4.5%	3.9%	1.8%	1.0%	2%	1.8%	NMF	3.1%	2.7%	3.1%	5.0%	3.5%	Retained to Com Eq	4.0%		
						67%	70%	83%	89%	98%	83%	113%	74%	73%	72%	60%	68%	All Div'ds to Net Prof	60%		
CURRENT POSITION						2004	2005	6/30/06													
						(\$mill.)															
Cash Assets						13.9	6.0	31.9													
Other						323.7	418.1	319.1													
Current Assets						337.6	424.1	351.0													
Accts Payable						68.4	138.4	118.2													
Debt Due						96.5	110.7	123.4													
Other						97.7	116.5	62.9													
Current Liab.						262.6	365.6	304.5													
Fix. Chg. Cov.						279%	293%	290%													
ANNUAL RATES						Past 10 Yrs.	Past 5 Yrs.	Past Est'd '03-'05 to '09-'11													
of change (per sh)						7.5%	17.0%	10.5%													
Revenues						1.0%	1.5%	8.0%													
"Cash Flow"						2.5%	4.5%	5.0%													
Earnings						1.0%	2.5%	2.5%													
Dividends						3.0%	2.5%	7.5%													
Book Value																					
Fiscal Year Ends	QUARTERLY REVENUES (\$ mill.) ^A								Full Fiscal Year												
	Dec.31	Mar.31	Jun.30	Sep.30	1993																
2003	280.1	422.2	186.6	161.4	1050.3																
2004	332.6	475.0	245.1	197.6	1250.3																
2005	442.5	576.5	311.3	266.7	1597.0																
2006	689.2	708.8	330.5	269.0	1997.5																
2007	475	475	475	475	1900																
Fiscal Year Ends	EARNINGS PER SHARE ^{A B F}								Full Fiscal Year												
	Dec.31	Mar.31	Jun.30	Sep.30	2003																
2003	.80	1.14	.11	d.21	1.82																
2004	.87	1.12	.19	d.28	1.82																
2005	.79	1.06	.29	d.24	1.90																
2006	1.23	1.05	.13	d.04	2.37																
2007	1.15	1.05	.25	d.30	2.15																
Cal-endar	QUARTERLY DIVIDENDS PAID ^C								Full Year												
	Mar.31	Jun.30	Sep.30	Dec.31	2002																
2002	.335	.335	.335	.335	1.34																
2003	.335	.335	.335	.335	1.34																
2004	.335	.34	.34	.34	1.36																
2005	.34	.345	.345	.345	1.38																
2006	.345	.355	.355	.355																	
(A) Fiscal year ends Sept. 30th.																					
(B) Based on average shares outstanding thru '97, then diluted. Excludes nonrecurring loss: Q2 '06, 7¢. Next earnings report due late Jan.																					
(C) Dividends historically paid in early January, April, July, and October. ■ Dividend reinvestment plan available.																					
(D) Incl. deferred charges. In '05: \$203.8 mill.																					
\$9.63/sh.																					
(E) In millions. Adjusted for stock split.																					
(F) Qty. eqs. may not sum due to change in shares outstanding.																					
Company's Financial Strength																			B+		
Stock's Price Stability																			95		
Price Growth Persistence																			55		
Earnings Predictability																			65		
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Target Price Range		
2009	2010	2011
		120
		100
		80
		64

			64
			48
			32
			24

				24
				20
				16
				12

THIS STOCK	VL ARITH. INDEX
25.7	15.5
48.3	49.4
22.2	25.2

Current Assets	686.0	952.8	965.5	BUSINESS: New Jersey Resources Corp. is a holding company providing retail and Wholesale energy svcs. to customers in New Jersey, in states from the Gulf Coast to New England, and Canada. New Jersey Natural Gas has about 471,000 customers at 9/30/06 in Monmouth and Ocean Counties, and other N.J. Counties. Fiscal 2006 volume: 102.8 bill. cu. ft. (56% firm, 7% interruptible industrial and electric utility, 37% off-system and capacity release). N.J. Natural Energy subsid. provides unregulated retail and wholesale natural gas and related energy svcs. 2006 dep. rate: 2.7%. Has 766 employ. Off/dir. own about 3% of common (12/05 Proxy). Chrmn. and CEO: Laurence M. Downes. Inc.: N.J. Addr.: 1415 Wyckoff Road, Wall, NJ 07719. Tel.: 732-938-1000. Web: www.njliving.com .
Accts Payable	42.9	54.7	46.8	
Debt Due	287.4	177.4	284.4	
Other	357.4	744.2	566.0	
Current Liab.	687.7	976.3	897.2	
Fix. Chg. Cov.	826%	660%	571%	

sults at NJNG, where earnings were hurt by reduced customer usage. The increase in earnings at the Energy unit was primarily due to favorable spreads on its storage asset positions. This can be attributable to the fact that the company's holding facilities become more valuable when prices change between areas and/or time periods. In addition, results from this segment are typically better during the winter months, since the fixed costs of these assets are spread throughout the entire year.

Though untimely, this good-quality stock generates consistent results. The board recently raised the quarterly dividend by 5.6%, to \$0.38 a share. We look for further modest increases over the next few years. However, the yield is below that of its utility counterparts, partly owing to good customer growth prospects. The lower yield is also due to funds being used for nonutility investments. For 2007, these activities may comprise 25%–30% of total earnings. However, investors should be aware that these activities are more risky than regulated operations.

Evan I. Blatter *December 15, 2006*

approval of a conservation incentive plan (CIP) in October by the New Jersey Board of Public Utilities. The CIP is a three-year pilot program that protects against both warmer-than-normal temperatures and conservation by customers, unlike the previous weather normalization clause that only protected against warmer temperatures. This will enable NJNG to promote conservation and efficiency, while protecting its financial performance. Customer growth remains strong. The company added about 10,160 customers in 2006 (to a total of around 470,000), with almost 35% converting from other fuels, and we look for similar levels of growth this year.

The company's results were once again led by the Energy subsidiaries' good performance. For the year, the division reported earnings of \$28 million, more than 70% above the year-ago period. The strong performance helped offset re-

(A) Fiscal year ends Sept. 30th.	April, July, and October. ■ Dividend reinvestment plan available.	Company's Financial Strength	A
(B) Diluted earnings. Next earnings report due late Jan.	(D) In millions, adjusted for split.	Stock's Price Stability	100
(C) Dividends historically paid in early January.		Price Growth Persistence	85
		Earnings Predictability	100

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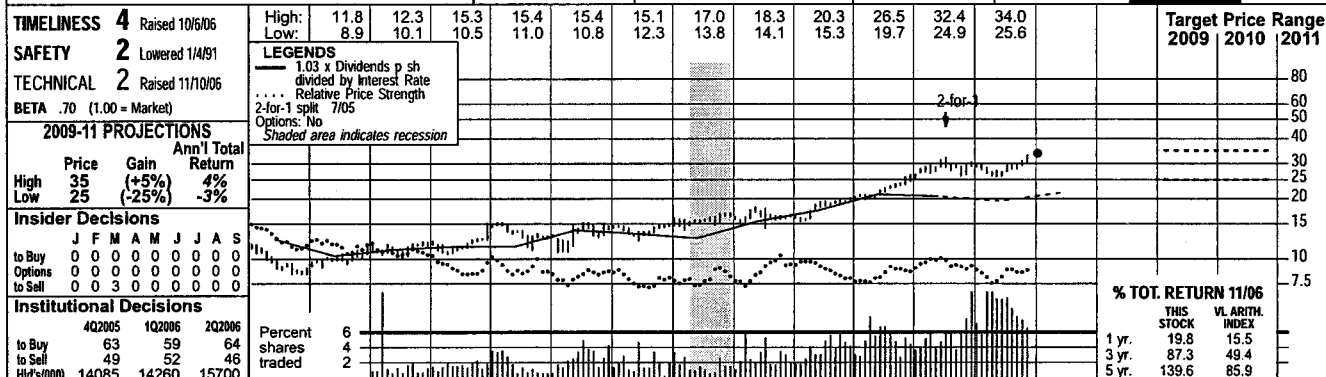
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NICOR, INC. NYSE-GAS										RECENT PRICE	49.59	P/E RATIO	18.1	(Trailing: 18.0 Median: 14.0)	RELATIVE P/E RATIO	0.98	DIV'D YLD	3.8%	VALUE LINE				
TIMELINESS	2	Raised 11/10/06	High:	28.5	37.1	42.9	44.4	42.9	43.9	42.4	49.0	39.3	39.7	43.0	49.9					Target Price Range	2009	2010	2011
SAFETY	3	Lowered 6/17/05	Low:	21.8	25.4	30.0	37.1	31.2	29.4	34.0	17.3	23.7	32.0	35.5	38.7								
TECHNICAL	2	Raised 11/3/06	LEGENDS																				
BETA	1.30	(1.00 = Market)	1.30 x Dividends p sh divided by Interest Rate																				
2009-11 PROJECTIONS																							
Price																							
Gain																							
Return																							
High																							
Low																							
Insider Decisions																							
Institutional Decisions																							
CAPITAL STRUCTURE as of 9/30/06																							
Pension Assets-12/05 \$424.0 mill. Oblig. \$284.4 mill.																							
Pfd Stock \$6 mill. Pfd Div'd \$2.2 mill.																							
Common Stock 44,709,976 shares as of 10/27/06																							
MARKET CAP: \$2.2 billion (Mid Cap)																							
CURRENT POSITION																							
ANNUAL RATES																							
Cal-endar																							
2003																							
2004																							
2005																							
2006																							
2007																							
BUSINESS: Nicor Inc. is a holding company with gas distribution as its primary business. Serves over 2.1 million customers in northern and western Illinois. 2005 gas delivered: 470.6 Bcf, incl. 219.4 Bcf from transportation. 2005 gas sales (251.2 bcf): residential, 80%; commercial, 18%; industrial, 2%. Principal supplying pipelines: Natural Gas Pipeline, Horizon Pipeline, and TGPCC. Current operations include Tropical Shipping subsidiary and several energy related ventures. Divested inland barging, 7/86; contract drilling, 9/86; oil and gas E&P, 6/93. Has about 3,700 employees Off/dir. own about 2.8% of common stock. (3/06 proxy). Chairman and CEO: Russ Strobel, Inc.: Illinois Address: 1844 Ferry Road, Naperville, Illinois 60563. Telephone: 630-305-9500. Internet: www.nicor.com.																							
Nicor reported strong results for its September period. Indeed, the company registered a share-net gain of \$0.39, which exceeded the popular consensus and topped last year's number at a loss of \$0.06 a share. All operating segments produced solid results. However, volumes were particularly strong in the gas distribution segment.																							
As the unseasonably warm weather passes, the company will likely benefit from an increase in the usage of natural gas over the balance of the year. The industry suffered through a tough first half due to warm conditions, but now as we near 2007, gas deliveries are increasing. As gas consumption returns to normal levels, Nicor's bottom line should push forward, beginning in 2007. Base rates will likely remain unchanged. Late in 2005, the Illinois Commerce Commission approved an increase in rates, which will likely continue to help the company's top and bottom lines in 2007. For the near term, Nicor seems to be content to move forward operating in the current conditions. Still, it has not fully utilized strategies that would protect its business through various mechanisms, which would help limit the variability of earnings. Thus, we anticipate similar volatility for these shares in the future. Nicor's other business segments should continue to be solid. Particularly, the Tropical Shipping division has continued to generate high revenues, which ought to continue going into 2007, as demand for the service remains robust. The company's energy ventures ought to also add some consistent volume to Nicor's top line over the next year. This issue is ranked to outperform the market in the year ahead. All told, the company has taken steps to improve its business across all of its segments and has benefited from the latest rate increase. However, much of this issue's long-term appreciation potential has been realized, as this stock is already trading within its Target Price Range. These shares may be of interest to income-oriented investors. Although Nicor offers a yield that is slightly below the industry mean at 3.8%, it's still is above the Value Line average.																							
Richard Gallagher																							
December 15, 2006																							
(A) Based on primary earnings thru '96, then diluted. Excl. nonrecurring gains/(loss): '89, 7¢; '97, 6¢; '98, 11¢; '99, 5¢; '00, (\$1.96); '01, 16¢; '03, (27¢); '04, (52¢); '05, 80¢; '06, (17¢). Excl. items from discontinued ops.: '93, 4¢; '96, 30¢. Quarterly earnings may not sum to total due to rounding. Next egs. report due early March. (B) Dividends historically paid early February, May, August, November. ■ Dividend reinvestment plan available. (C) In millions, adjusted for stock split.																							
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Company's Financial Strength																							
Stock's Price Stability																							
Price Growth Persistence																							
Earnings Predictability																							
To subscribe call 1-800-833-0046.																							

N.W. NAT'L GAS NYSE: NWN				RECENT PRICE	41.62	P/E RATIO	17.9	(Trailing: 19.5 Median: 15.0)	RELATIVE P/E RATIO	0.97	DIV'D YLD	3.4%	VALUE LINE								
TIMELINESS	4	Lowered 12/8/06	High: 22.8 25.9 31.4 30.8 27.9 27.5 26.8 30.7 31.3 34.1 39.6 41.9	Low: 18.3 20.8 23.0 24.3 19.5 17.8 21.7 23.5 24.0 27.5 32.4 32.8									Target Price	Range							
SAFETY	1	Raised 3/18/05											2009	2010	2011						
TECHNICAL	2	Raised 12/8/06											120								
BETA	.75	(1.00 = Market)											80								
2009-11 PROJECTIONS														64							
Ann'l Total														48							
Price	45	Gain											32								
Low	40	(+10% -5%)											24								
Insider Decisions														20							
J F M A M J J A S														16							
To Buy 0 1 1 0 0 0 0 0 0														12							
Options to Sell 0 0 0 0 0 0 0 0 1														8							
Institutional Decisions														% TOT. RETURN 11/06							
4Q2005 1Q2006 2Q2006														THIS STOCK VL ARTH. INDEX							
To Buy 59 62 77														1 yr. 24.6 15.5							
To Sell 54 59 59														3 yr. 52.1 49.4							
Hld's(000) 12922 13095 14328														5 yr. 105.7 85.9							
Percent shares traded																					
9 6 3																					
© VALUE LINE PUB., INC. 09-11																					
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	Revenues per sh	51.80		
17.02	16.74	14.10	18.15	18.30	16.02	16.86	15.82	16.77	18.17	21.09	25.78	25.07	23.57	25.69	33.01	36.35	36.85	Revenues (\$mill)	1350		
3.22	2.57	3.25	3.74	3.50	3.41	3.86	3.72	3.24	3.72	3.68	3.86	3.65	3.85	3.92	4.34	4.65	4.75	"Cash Flow" per sh	5.10		
1.62	.67	.74	1.74	1.63	1.61	1.97	1.76	1.02	1.70	1.79	1.88	1.62	1.76	1.86	2.11	2.25	2.40	Earnings per sh ^	2.85		
1.10	1.13	1.15	1.17	1.17	1.18	1.20	1.21	1.22	1.23	1.24	1.25	1.26	1.27	1.30	1.32	1.39	1.43	Div's Decl'd per sh ^	1.70		
3.85	3.58	3.73	3.61	4.23	3.02	3.70	5.07	4.02	4.78	3.46	3.23	3.11	4.90	5.52	3.48	3.65	3.30	Cap'l Spending per sh	3.35		
12.61	12.23	12.41	13.08	13.63	14.55	15.37	16.02	16.59	17.12	17.93	18.56	18.88	19.52	20.64	21.28	22.10	22.95	Book Value per sh	25.55		
17.41	17.68	19.46	19.77	20.13	22.24	22.56	22.86	24.85	25.09	25.23	25.23	25.59	25.94	27.55	27.58	27.50	27.80	Common Shs Outst'g ^	28.00		
10.2	28.1	27.0	12.9	13.0	12.9	11.7	14.4	26.7	14.5	12.4	12.9	17.2	15.8	16.7	17.0	16.8	17.0	Avg Ann'l P/E Ratio	15.0		
.76	1.79	1.64	.76	.85	.86	.73	.83	1.39	.83	.81	.66	.94	.90	.88	.91	.91	.91	Relative P/E Ratio	1.00		
6.7%	5.9%	5.7%	5.2%	5.5%	5.7%	5.2%	4.8%	4.5%	5.0%	5.6%	5.1%	4.5%	4.6%	4.2%	3.7%			Avg Ann'l Div'd Yield	4.0%		
CAPITAL STRUCTURE as of 9/30/06																			Revenues (\$mill)		1350
Total Debt \$624.8 mill. Due in 5 Yrs \$251.7 mill.																			Net Profit (\$mill)		80.0
LT Debt \$492.0 mill. LT Interest \$31.0 mill.																			Income Tax Rate		36.0%
(Total interest coverage: 3.4x)																			Net Profit Margin		5.9%
Pension Assets-12/05 \$218.6 mill.																			Long-Term Debt Ratio		47%
Oblig. \$267.9 mill.																			Common Equity Ratio		53%
Pfd Stock None																			Total Capital (\$mill)		1350
Common Stock 27,504,896 shs.																			Net Plant (\$mill)		1700
as of 10/31/06																			Return on Total Cap'l		7.0%
MARKET CAP \$1.1 billion (Mid Cap)																			Return on Shr. Equity		10.5%
CURRENT POSITION																			Return on Com Equity		10.5%
2004 2005 9/30/06																			Retained to Com Eq		3.8%
(\$mill.)																			All Div'ds to Net Prof		60%
Cash Assets 5.2 7.1 5.7																					
Other 231.9 316.6 209.7																					
Current Assets 237.1 323.7 215.4																					
Accts Payable 102.5 135.3 64.5																					
Debt Due 117.5 134.7 132.8																					
Other 47.3 56.6 58.6																					
Current Liab. 267.3 326.6 255.9																					
Fx. Chg. Cov. 316% 340% NMF																					
ANNUAL RATES																					
Past 10 Yrs. Past 5 Yrs. Est'd '03-'05 to '09-'11																					
Revenues 4.5% 8.0% 11.0%																					
"Cash Flow" 1.5% 2.5% 4.5%																					
Earnings 1.5% 5.0% 7.0%																					
Dividends 1.0% 1.0% 4.0%																					
Book Value 4.0% 3.5% 3.5%																					
QUARTERLY REVENUES (\$mill.)																					
Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full Year																					
2003 206.5 117.5 69.5 217.8 611.3																					
2004 254.5 109.7 81.4 262.0 707.6																					
2005 308.7 153.7 106.7 341.4 910.5																					
2006 390.4 171.0 114.9 323.7 1000																					
2007 370 180 135 340 1025																					
EARNINGS PER SHARE ^																					
Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full Year																					
2003 1.01 .17 d.25 .83 1.76																					
2004 1.24 .d3 d.30 .95 1.86																					
2005 1.44 .04 d.31 .94 2.11																					
2006 1.48 .07 d.35 1.05 2.25																					
2007 1.56 .06 d.33 1.11 2.40																					
QUARTERLY DIVIDENDS PAID ^																					
Cal- Mar.31 Jun.30 Sep.30 Dec.31 Full Year																					
2002 .315 .315 .315 .315 1.26																					
2003 .315 .315 .315 .315 1.27																					
2004 .325 .325 .325 .325 1.30																					
2005 .325 .325 .325 .345 1.32																					
2006 .345 .345 .345 .355																					
BUSINESS: Northwest Natural Gas Co. distributes natural gas at retail to 90 communities, 624,000 customers, in Oregon (90% of custs.) and in southwest Washington state. Principal cities served: Portland and Eugene, OR; Vancouver, WA. Service area population: 2.4 mill. (77% in OR). Company buys gas supply from Canadian and U.S. producers; has transportation rights on Northwest Pipeline system to bring gas to market. Owns local underground storage. Rev. breakdown: residential, 53%; commercial, 27%; industrial, gas transportation, and other, 20%. Employs 1,305. Barclays owns 6.2% of shares; insiders, 1% (4/06 proxy). CEO: Mark S. Dodson, Inc.: OR. Address: 220 NW 2nd Ave., Portland, OR 97209. Tel.: 503-226-4211. Internet: www.nwnatural.com.																					
Northwest reported a seasonal loss in the third quarter. The increased loss was due largely to the effects of the company's weather adjustment clause, which cost about \$0.02 in the September period, and to the fact that some industrial customers switched to lower rate schedules. Meanwhile, customer growth for the last 12 months was strong, at 3.4%. We look for a solid earnings gain in the fourth quarter due in part to the absence of an unusual expense. In the final period of 2005, unusual litigation costs reduced earnings by \$0.05 a share, which Northwest will not incur this year. Customer growth should add a few cents a share. Moreover, changes in the company's weather adjustment clause have moved the effective date back to October 1st, which give Northwest protection against warm weather in October and November for the first time. The first severance costs of the company's new operations streamlining plan will occur in the December period, but they should be offset by gains coming from sales of some non-core assets. Continued customer growth and cost cutting will likely produce decent earnings growth in 2007. The pace of new single-home construction is likely to slow, but growth from new apartment houses in Portland will offset much of that. And conversions from oil will probably grow, if, as we believe likely, OPEC keeps the price of oil over \$55 a barrel. Too, Northwest's program to pare costs to equal the top quartile of all gas utilities should begin to pay off next year. Earnings growth at an above-industry pace looks likely out to 2009-2011. A zoning change east of Portland should lead to substantial growth in residential customers by the end of our time horizon. It is likely that the growing demand for natural gas will bring at least one new liquefied natural gas plant to Northwest's territory. Moreover, a new pipeline connection could boost gas supplies. Still, These untimely, but top-quality, shares, have below-average total return potential. Earnings and dividends will probably grow faster than the industry averages, but the likelihood of higher interest rates limits capital appreciation potential. Sigourney B. Romaine December 15, 2006																					

SOUTH JERSEY INDS. NYSE-SJI

RECENT PRICE **33.89** P/E RATIO **17.7** (Trailing: 20.3; Median: 14.0) RELATIVE P/E RATIO **0.96** DIV'D YLD **2.9%** VALUE LINE



1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC.	09-11
14.40	15.10	16.67	17.03	17.45	16.50	16.52	16.18	20.89	17.60	22.43	35.30	20.69	26.34	29.51	31.78	32.25	33.80	Revenues per sh	37.75
1.34	1.37	1.56	1.54	1.35	1.65	1.54	1.60	1.44	1.84	1.95	1.90	2.12	2.24	2.44	2.51	2.80	2.95	"Cash Flow" per sh	3.45
.67	.64	.81	.78	.61	.83	.85	.86	.64	1.01	1.08	1.15	1.22	1.37	1.58	1.71	1.85	1.95	Earnings per sh ^A	2.30
.70	.71	.71	.72	.72	.72	.72	.72	.72	.72	.73	.74	.75	.78	.82	.86	.92	.98	Div'ds Decl'd per sh ^B	1.15
2.11	2.17	1.69	1.87	1.93	2.08	2.01	2.30	3.06	2.19	2.21	2.82	3.47	2.36	2.67	3.21	3.60	3.70	Cap'l Spending per sh	4.05
6.79	6.77	6.95	7.17	7.23	7.34	8.03	6.43	6.23	6.74	7.25	7.81	9.67	11.26	12.41	13.50	14.25	15.05	Book Value per sh ^C	17.45
18.06	18.48	19.00	19.61	21.43	21.44	21.51	21.54	21.56	22.30	23.00	23.72	24.41	26.46	27.76	28.98	29.30	29.60	Common Shs Outst'g ^D	31.00
13.6	14.5	13.2	15.8	16.1	12.2	13.3	13.8	21.2	13.3	13.0	13.6	13.5	13.3	14.1	16.6	Bold figures are Value Line estimates		Avg Ann'l P/E Ratio	14.0
1.01	.93	.80	.93	1.06	.82	.83	.80	1.10	.76	.85	.70	.74	.76	.74	.88			Relative P/E Ratio	.95
7.7%	7.6%	6.6%	5.9%	7.4%	7.2%	6.4%	6.1%	5.3%	5.4%	5.2%	4.7%	4.6%	4.3%	3.7%	3.0%			Avg Ann'l Div'd Yield	3.5%
CAPITAL STRUCTURE as of 9/30/06						355.5	348.6	450.2	392.5	515.9	837.3	505.1	696.8	819.1	921.0	945	1000	Revenues (\$mill)	1170
Total Debt \$505.1 mill. Due in 5 Yrs \$175.0 mill.						18.5	18.4	13.8	22.0	24.7	26.8	29.4	34.6	43.0	48.6	55.0	60.0	Net Profit (\$mill)	70.0
LT Debt \$358.1 mill. LT Interest \$20.0 mill.						35.5%	36.8%	46.2%	42.8%	43.1%	42.2%	41.4%	40.6%	40.9%	41.5%	40.5%	40.5%	Income Tax Rate	40.5%
(Total interest coverage: 4.8x)						5.2%	5.3%	3.1%	5.6%	4.8%	3.2%	5.8%	5.0%	5.2%	5.3%	5.7%	5.6%	Net Profit Margin	6.0%
Pension Assets-12/05 \$108.5 mill. Oblig. \$126.7 mill.						46.1%	54.6%	57.3%	53.8%	54.1%	57.0%	53.6%	50.8%	48.7%	44.9%	46.0%	45.5%	Long-Term Debt Ratio	42.0%
						53.2%	35.8%	33.5%	37.0%	37.6%	35.9%	46.1%	49.0%	51.0%	55.1%	54.0%	54.5%	Common Equity Ratio	58.0%
Pfd Stock none						324.8	387.1	401.1	405.9	443.5	516.2	512.5	608.4	675.0	710.3	780	820	Total Capital (\$mill)	935
						423.9	456.5	504.3	533.3	562.2	607.0	666.6	748.3	799.9	877.3	940	1010	Net Plant (\$mill)	1200
Common Stock 29,279,288 common shs. as of 11/1/06						7.9%	6.7%	5.3%	7.4%	7.4%	6.9%	7.6%	7.3%	7.9%	8.3%	8.5%	8.0%	Return on Total Cap'l	8.5%
						10.5%	10.5%	8.1%	11.7%	12.1%	12.1%	12.4%	11.5%	12.4%	12.4%	13.0%	12.5%	Return on Shr. Equity	13.0%
						10.6%	13.3%	10.3%	14.6%	14.8%	12.8%	12.5%	11.6%	12.5%	12.4%	13.0%	12.5%	Return on Com Equity	13.0%
MARKET CAP: \$1.0 billion (Mid Cap)						1.6%	2.1%	NMF	4.2%	4.8%	3.5%	4.7%	5.0%	5.9%	6.2%	6.5%	6.5%	Retained to Com Eq	6.0%
CURRENT POSITION 2004 2005 9/30/06						85%	84%	112%	72%	67%	76%	62%	57%	52%	50%	50%	51%	All Div'ds to Net Prof	53%

CAPITAL STRUCTURE as of 9/30/06
 Total Debt \$505.1 mill. Due in 5 Yrs \$175.0 mill.
 LT Debt \$358.1 mill. LT Interest \$20.0 mill.
 (Total interest coverage: 4.8x)

Pension Assets-12/05 \$108.5 mill.
 Oblig. \$126.7 mill.

Pfd Stock none

Common Stock 29,279,288 common shs. as of 11/1/06

MARKET CAP: \$1.0 billion (Mid Cap)

CURRENT POSITION	2004	2005	9/30/06
Cash Assets	10.6	4.9	5.0
Other	273.3	352.6	310.7
Current Assets	283.9	357.5	315.7
Accts Payable	118.8	179.0	52.3
Debt Due	97.6	149.7	177.9
Other	68.9	74.4	140.5
Current Liab.	285.3	403.1	370.7
Fix. Chg. Cov.	426%	486%	445%

ANNUAL RATES	Past 10 Yrs.	Past 5 Yrs.	Est'd '03-'05 to '09-'11
Revenues	5.5%	7.5%	4.5%
"Cash Flow"	4.5%	6.5%	6.5%
Earnings	8.0%	11.5%	7.0%
Dividends	1.5%	2.5%	6.0%
Book Value	5.5%	13.0%	6.0%

2007	375	175	160	290	1000
Cal-endar	EARNINGS PER SHARE ^A				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2003	.92	.08	d.07	.44	1.37
2004	.91	.15	.02	.50	1.58
2005	.96	.27	.09	.39	1.71
2006	.93	.25	.09	.58	1.85
2007	.97	.28	.10	.60	1.95
Cal-endar	QUARTERLY DIVIDENDS PAID ^B				Full Year
	Mar.31	Jun.30	Sep.30	Dec.31	
2002	.185	.188	.188	.38	.94
2003	--	.193	.193	.395	.78
2004	--	.202	.202	.415	.82
2005	--	.213	.213	.438	.86
2006	--	.225	.225	.225	

new housing in south New Jersey.

Earnings at South Jersey Gas, the company's main subsidiary, should become less volatile in the coming years. This is due to the approval in October of the CIP by the New Jersey Board of Public Utilities. It is a three-year pilot program that will allow the company to promote energy conservation, without earnings being impacted. The primary benefit of the program is that it protects SJG from margin variations related to both changes in weather and customer usage, versus just weather under the prior plan.

Nonutility business is positioned to

gets the nod, the deal would be a meaningful contributor to earnings toward the latter part of the decade.

Good-quality South Jersey Industries shares have benefited from good news. Due to an improved outlook, the board now intends to raise the dividend payout about 6%-7% annually, up from 3%-6%. Even so, this untimely equity has risen about 15% since our last report, and is now trading at a lofty P/E ratio compared to historical levels. Looking ahead, total return potential is limited, despite the likelihood of dividend increases.

Evan L Blatter December 15, 2006

BUSINESS: South Jersey Industries, Inc. is a holding company. Its subsidiary, South Jersey Gas Co., distributes natural gas to 322,424 customers in New Jersey's southern counties, which covers 2,500 square miles and includes Atlantic City. Gas revenue mix '05: residential, 45%; commercial, 23%; cogeneration and electric generation 4%; Industrial, 23%. Non-utility operations include:

South Jersey Energy, South Jersey Resource Group, Marina Energy, and South Jersey Energy Services Plus. Has 636 employees. Off./dir. cntrl. 1.5% of com. shares; Dimensional Fund Advisors, 7.9%; Barclays, 5.3% (3/06 proxy). Chmn. & CEO: Edward Graham. Incorp.: NJ. Address: 1 South Jersey Plaza, Rte. 54, Folsom, NJ 08037. Tel.: 609-561-9000. Internet: www.sjindustries.com.

South Jersey Industries is on pace to close out 2006 on a strong note. We look for the company to report earnings of \$0.58 a share in the fourth quarter, almost 50% above last year's figure. This can be attributed to a new Conservation Incentive Program (CIP) at South Jersey Gas, along with better performance from its non-utility operations (discussed below). The company continues to add customers at a nice rate, a trend that should continue in the coming years, driven by the strength of the local economy and steady demand for new housing in south New Jersey.

Earnings at South Jersey Gas, the company's main subsidiary, should become less volatile in the coming years. This is due to the approval in October of the CIP by the New Jersey Board of Public Utilities. It is a three-year pilot program that will allow the company to promote energy conservation, without earnings being impacted. The primary benefit of the program is that it protects SJG from margin variations related to both changes in weather and customer usage, versus just weather under the prior plan.

Nonutility business is positioned to grow over the 2009-2011 period. The company's Marina Energy subsidiary is in the second phase of its expansion of the Borgata Hotel Casino & Spa, which includes a 40-story hotel tower that is scheduled to be completed late next year. Marina is also pursuing a similar project with the Borgata in Las Vegas, and remains one of the finalists to co-own and operate a thermal facility to provide all the energy needs for this Las Vegas casino project. The winning bid is expected to be announced shortly, and if South Jersey gets the nod, the deal would be a meaningful contributor to earnings toward the latter part of the decade.

Good-quality South Jersey Industries shares have benefited from good news. Due to an improved outlook, the board now intends to raise the dividend payout about 6%-7% annually, up from 3%-6%. Even so, this untimely equity has risen about 15% since our last report, and is now trading at a lofty P/E ratio compared to historical levels. Looking ahead, total return potential is limited, despite the likelihood of dividend increases.

Evan I. Blatter
 December 15, 2006

(A) Based on avg. shs. Excl. nonrecr. gain: '01, \$0.13. Excl. gain (losses) from discount ops.: '96, \$1.14; '97, (\$0.24); '98, (\$0.26); '99, (\$0.02); '00, (\$0.04); '01, (\$0.02); '02, (\$0.04); '03, (\$0.09); '05, (\$0.02). Excl. gains due to acct'g change: '93, \$0.04; '01, \$0.14. Next eqs. report due late January.
 (B) Dividends paid early Apr., Jul., Oct, and late Dec. ■ Div. reinvest. plan avail. (2% disc.).
 (C) Incl. regulatory assets (\$121.5 mill.): at 12/31/05, \$4.19 per sh.
 (D) In millions, adjusted for split.

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Company's Financial Strength B++
Stock's Price Stability 100
Price Growth Persistence 95
Earnings Predictability 90

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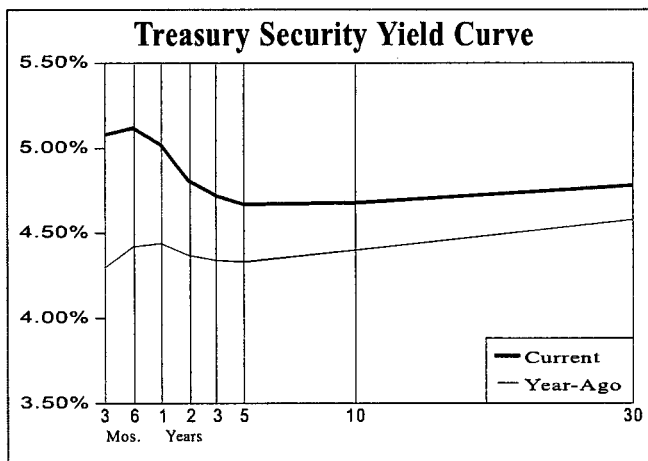
SOUTHWEST GAS NYSE-SWX										RECENT PRICE	38.47	P/E RATIO	19.0	(Trailing: 22.1 Median: 20.0)	RELATIVE P/E RATIO	1.03	DIV'D YLD	2.1%	VALUE LINE													
TIMELINESS	3	Raised 5/12/06	High:	18.4	19.9	20.3	26.9	29.5	23.0	24.7	25.3	23.6	26.2	28.1	38.4					Target Price	2009	2010	2011									
SAFETY	3	Lowered 1/4/91	Low:	13.6	14.9	16.1	17.3	20.4	16.9	18.6	18.1	19.3	21.5	23.5	26.0																	
TECHNICAL	2	Raised 9/29/06	LEGENDS																													
BETA	.85	(1.00 = Market)	2.10 x Dividends p sh divided by Interest Rate																													
2009-11 PROJECTIONS																																
Price	50	Gain (+30%)	Ann'l Total																													
High	50	Low	35	Gain	8%	Return	8%																									
Insider Decisions																																
J	F	M	A	M	J	J	A	S																								
to Buy	0	0	0	3	0	0	0	1	0																							
Options	1	0	5	1	5	5	2	5	2																							
to Sell	1	0	5	1	6	6	2	5	2																							
Institutional Decisions																																
4Q2005	1Q2006	2Q2006																														
to Buy	62	69	82	Percent	9																											
to Sell	53	53	46	shares	6																											
Hld's(000)	25543	26476	29036	traded	3																											
1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	© VALUE LINE PUB., INC. 09-11														
25.90	24.99	25.93	25.68	28.16	23.03	24.09	26.73	30.17	30.24	32.61	42.98	39.68	35.96	40.14	43.59	47.15	47.90	Revenues per sh ^A	51.10													
3.96	1.53	3.34	3.24	5.09	2.65	3.00	3.85	4.48	4.45	4.57	4.79	5.07	5.11	5.57	5.20	6.05	6.05	"Cash Flow" per sh	6.60													
1.81	d.76	.81	.63	1.22	.10	.25	.77	1.65	1.27	1.21	1.15	1.16	1.13	1.66	1.25	1.95	2.00	Earnings per sh ^A	2.35													
1.40	.88	.70	.74	.80	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	.82	Div'ds Decl'd per sh ^C	.82													
5.06	3.76	5.02	5.43	6.64	6.79	8.19	6.19	6.40	7.41	7.04	8.17	8.50	7.03	8.23	7.49	7.49	7.45	Cap'l Spending per sh	7.80													
17.63	15.88	15.99	15.96	16.38	14.55	14.20	14.09	15.67	16.31	16.82	17.27	17.91	18.42	19.18	19.10	19.50	20.60	Book Value per sh	24.55													
20.04	20.60	20.60	21.00	21.28	24.47	26.73	27.39	30.41	30.99	31.71	32.49	33.29	34.23	36.79	39.33	42.00	43.00	Common Shs Outst'g ^D	45.00													
8.7	--	16.6	26.5	14.0	NMF	NMF	24.1	13.2	21.1	16.0	19.0	19.9	19.2	14.3	20.6	20.6	20.6	Avg Ann'l P/E Ratio	18.0													
.65	--	1.01	1.57	.92	NMF	NMF	1.40	.69	1.20	1.04	.97	1.09	1.09	.76	1.10	1.10	1.10	Relative P/E Ratio	1.20													
8.9%	7.0%	5.2%	4.4%	4.7%	5.4%	4.7%	4.4%	3.8%	3.1%	4.2%	3.8%	3.6%	3.8%	3.5%	3.2%	3.2%	3.2%	Avg Ann'l Div'd Yield	1.9%													
CAPITAL STRUCTURE as of 9/30/06										644.1	732.0	917.3	936.9	1034.1	1396.7	1320.9	1231.0	1477.1	1714.3	1980	2060	Revenues (\$mill) ^A	2300									
Total Debt \$1393.4 mill. Due in 5 Yrs \$379.5 mill.										6.6	20.8	47.5	39.3	38.3	37.2	38.6	38.5	58.9	48.1	85.0	85.0	Net Profit (\$mill)	105									
LT Debt \$1366.1 mill. LT Interest \$88.0 mill.										37.1%	29.2%	43.4%	35.5%	26.2%	34.5%	32.8%	30.5%	34.8%	29.7%	34.0%	35.0%	Income Tax Rate	35.0%									
(Total interest coverage: 2.1x)										1.0%	2.8%	5.2%	4.2%	3.7%	2.7%	2.9%	3.1%	4.0%	2.8%	4.2%	4.2%	Net Profit Margin	4.6%									
Pension Assets-12/05 \$359.6 mill.										60.2%	63.6%	60.2%	60.3%	60.2%	56.2%	62.5%	66.0%	64.2%	63.8%	61.3%	60.4%	Long-Term Debt Ratio	56.8%									
Obliq. \$511.0 mill.										34.4%	31.5%	35.3%	35.5%	35.8%	39.6%	34.1%	34.0%	35.8%	36.2%	38.7%	39.6%	Common Equity Ratio	43.2%									
Pfd Stock None										1104.8	1224.7	1349.3	1424.7	1489.9	1417.6	1748.3	1851.6	1968.6	2076.0	2120	2235	Total Capital (\$mill)	2550									
Common Stock 41,464,506 shs.										1278.5	1360.3	1459.4	1581.1	1686.1	1825.6	1979.5	2175.7	2336.0	2489.1	2600	2750	Net Plant (\$mill)	3200									
as of 11/2/06										2.8%	3.9%	5.8%	4.8%	4.6%	5.1%	4.3%	4.2%	5.0%	4.3%	6.0%	5.5%	Return on Total Cap'l	6.0%									
MARKET CAP: \$1.6 billion (Mid Cap)										1.5%	4.7%	8.9%	7.0%	6.5%	6.0%	5.9%	6.1%	8.3%	6.4%	10.5%	9.5%	Return on Shr. Equity	9.5%									
CURRENT POSITION 2004 2005 9/30/06										1.7%	5.4%	10.0%	7.8%	7.2%	6.6%	6.5%	6.1%	8.3%	6.4%	10.5%	9.5%	Return on Com Equity	9.5%									
(SMILL.)										NMF	NMF	5.0%	2.8%	2.4%	1.9%	1.9%	1.7%	4.3%	2.2%	6.5%	5.5%	Retained to Com Eq	6.0%									
Cash Assets										NMF	NMF	107%	50%	64%	67%	71%	70%	49%	65%	39%	41%	All Div'ds to Net Prof	35%									
Other										BUSINESS: Southwest Gas Corporation is a regulated gas distributor serving approx. 1.7 million customers in sections of Arizona, Nevada, and California. '05 margin mix: resid. and small commercial, 86%; large commercial and industrial, 5%; transportation, 9%. Annual volume: 2.2 billion therms. Principal suppliers: El Paso Natural Gas Co. and Northwest Pipeline Corp. Acquired gas utility assets from Arizona Public Service in 1984. Sold PriMerit Bank (acq. in '86) in 7/96. Has about 4,940 employees. Officers & Directors own 2.3% of common stock (3/06 Proxy). Chairman: LeRoy Haneman. Chief Executive Officer: Jeffrey W. Shaw. Incorporated: California. Address: 5241 Spring Mountain Rd., Las Vegas, Nevada 89193. Telephone: 702-876-7011. Internet: www.swgas.com.																						
Current Assets										Southwest Gas reported improving results in the third quarter. Revenues came in at \$351.8 million, a 12% increase. The company reported a share-net loss of \$0.26, compared to a loss of \$0.43 in the prior year's period. Due to the seasonal nature of its operations (natural gas sales peak in the winter), losses during the second and third quarters are not uncommon. We find the recent period's improvement encouraging. Rate relief (primarily in Arizona) added roughly \$10 million to operating income. Moderating operations and maintenance expenses also benefited the company. Growth in the customer base (discussed below) contributed, as well. For full-year 2006, we look for revenues and share earnings to advance by roughly 15% and 56%, respectively. We have increased our earnings-per-share estimate by a dime, to \$1.95, as we expect strong performance during the fourth quarter. During the past 12 months, the company built its customer base by over 4%. The pace of growth has been impressive in recent times. We expect this pattern to continue. However, as SWX continues to expand, it is likely to incur up-																						
Accts Payable										front costs and increased operating expenses. Improvements in technology may offset these costs, somewhat. We are mildly optimistic about growth prospects for the coming years. We anticipate modest advances in both the top and bottom line figures from 2007 to the end of the decade, as demographic trends favor Arizona and Nevada. The net profit margin should improve, as well. But, in addition to customer growth, continued strength depends upon such variables as favorable weather temperatures and the company's ability to obtain sufficient rate relief. Its increased focus in this area is encouraging. These shares are not a standout for the coming year. Moreover, appreciation potential is below average for the pull to late decade, as the shares are trading within our projected range. The dividend yield of 2.1% is lower than that of most utility stocks, and income-oriented accounts should note that the company has not increased its payout in roughly a decade. Investors could likely find better choices elsewhere. Michael F. Napoli December 15, 2006																						
Debt Due										Company's Financial Strength										B												
Other										Stock's Price Stability										95												
Current Liab.										Price Growth Persistence										60												
Fix. Chg. Cov.										Earnings Predictability										65												
ANNUAL RATES										To subscribe call 1-800-833-0046.																						
Past 10 Yrs.																																
Revenues																																
"Cash Flow"																																
Earnings																																
Dividends																																
Book Value																																
QUARTERLY REVENUES (\$mill.)																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																											
2003	403.3	255.8	220.2	351.7	1231.0																											
2004	473.4	278.7	264.5	460.5	1477.1																											
2005	542.9	361.1	313.3	497.0	1714.3																											
2006	676.9	430.9	351.8	520.4	1980																											
2007	690	450	370	550	2060																											
EARNINGS PER SHARE ^B																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																											
2003	.76	d.12	d.51	1.00	1.13																											
2004	1.18	d.24	d.51	1.23	1.66																											
2005	.88	d.07	d.43	.87	1.25																											
2006	1.11	.02	d.26	1.08	1.95																											
2007	1.15	.05	d.30	1.10	2.00																											
QUARTERLY DIVIDENDS PAID ^C																																
Cal-endar	Mar.31	Jun.30	Sep.30	Dec.31	Full Year																											
2002	.205	.205	.205	.205	.82																											
2003	.205	.205	.205	.205	.82																											
2004	.205	.205	.205	.205	.82																											
2005	.205	.205	.205	.205	.82																											
2006	.205	.205	.205	.205	.82																											

WGL HOLDINGS NYSE-WGL										RECENT PRICE	33.41	P/E RATIO	17.4	(Trailing: 19.0 Median: 15.0)	RELATIVE P/E RATIO	0.95	DIV'D YLD	4.1%	VALUE LINE																																			
TIMELINESS	4	Raised 8/4/06	High:	22.4	25.0	31.4	30.8	29.4	31.5	30.5	29.5	28.8	31.4	34.8	33.4				Target Price	2009	2010	2011																																
SAFETY	1	Raised 4/2/93	Low:	16.1	19.1	20.9	23.1	21.0	21.8	25.3	19.3	23.2	26.7	28.8	27.0																																							
TECHNICAL	2	Raised 11/17/06	LEGENDS 130 x Dividends p sh divided by Interest Rate Relative Price Strength 2-for-1 split 5/95 Options: No Shaded area indicates recession																																																			
BETA	.85	(1.00 = Market)																																																				
2009-11 PROJECTIONS																																																						
		Price	35	Gain	(+5%)	Ann'l Total	Return	6%	2%																																													
High		Low	30																																																			
Insider Decisions																																																						
		J	F	M	A	M	J	J	A	S																																												
to Buy		0	0	0	0	0	0	0	0	0																																												
Options		0	0	0	0	0	0	0	0	0																																												
to Sell		0	0	0	0	0	0	0	0	0																																												
Institutional Decisions																																																						
		4Q2005	1Q2006	2Q2006																																																		
to Buy		88	70	73																																																		
to Sell		67	77	78																																																		
Hld's(000)		27959	27311	29760																																																		
		Percent	9	6	3																																																	
		shares	traded																																																			
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ATTACHMENT B

Selected Yields

	Recent (1/10/07)	3 Months Ago (10/11/06)	Year Ago (1/12/06)		Recent (1/10/07)	3 Months Ago (10/11/06)	Year Ago (1/12/06)
TAXABLE							
Market Rates				Mortgage-Backed Securities			
Discount Rate	6.25	6.25	5.25	GNMA 6.5%	5.61	5.80	5.25
Federal Funds	5.25	5.25	4.25	FHLMC 6.5% (Gold)	5.73	6.03	5.76
Prime Rate	8.25	8.25	7.25	FNMA 6.5%	5.64	5.96	5.58
30-day CP (A1/P1)	5.24	5.24	4.34	FNMA ARM	5.58	5.53	4.36
3-month LIBOR	5.36	5.37	4.60	Corporate Bonds			
Bank CDs				Financial (10-year) A	5.53	5.67	5.35
6-month	3.30	3.34	2.85	Industrial (25/30-year) A	5.74	5.83	5.61
1-year	3.85	3.88	3.42	Utility (25/30-year) A	5.76	5.95	5.62
5-year	3.91	4.04	3.98	Utility (25/30-year) Baa/BBB	6.06	6.30	5.99
U.S. Treasury Securities				Foreign Bonds (10-Year)			
3-month	5.08	5.01	4.30	Canada	4.08	4.13	4.03
6-month	5.12	5.09	4.42	Germany	4.02	3.81	3.28
1-year	5.02	5.00	4.44	Japan	1.76	1.74	1.45
5-year	4.67	4.74	4.33	United Kingdom	4.81	4.61	4.08
10-year	4.68	4.78	4.40	Preferred Stocks			
10-year (inflation-protected)	2.42	2.47	2.02	Utility A	7.17	7.19	7.09
30-year	4.78	4.91	4.58	Financial A	6.33	6.31	6.22
30-year Zero	4.72	4.87	4.53	Financial Adjustable A	5.49	5.49	5.49



TAX-EXEMPT

Bond Buyer Indexes			
20-Bond Index (GOs)	4.15	4.25	4.37
25-Bond Index (Revs)	4.50	4.77	5.11
General Obligation Bonds (GOs)			
1-year Aaa	3.50	3.45	3.20
1-year A	3.60	3.58	3.32
5-year Aaa	3.54	3.48	3.37
5-year A	3.82	3.77	3.65
10-year Aaa	3.72	3.79	3.75
10-year A	4.12	4.09	4.07
25/30-year Aaa	4.06	4.17	4.39
25/30-year A	4.38	4.44	4.66
Revenue Bonds (Revs) (25/30-Year)			
Education AA	4.41	4.45	4.42
Electric AA	4.39	4.46	4.56
Housing AA	4.50	4.50	4.75
Hospital AA	4.53	4.70	4.88
Toll Road Aaa	4.47	4.53	4.76

Federal Reserve Data

BANK RESERVES

(Two-Week Period; in Millions, Not Seasonally Adjusted)

	Recent Levels			Average Levels Over the Last...		
	1/3/07	12/20/06	Change	12 Wks.	26 Wks.	52 Wks.
Excess Reserves	2103	1441	662	1756	1690	1694
Borrowed Reserves	191	210	-19	197	283	223
Net Free/Borrowed Reserves	1912	1231	681	1560	1407	1471

MONEY SUPPLY

(One-Week Period; in Billions, Seasonally Adjusted)

	Recent Levels			Growth Rates Over the Last...		
	12/25/06	12/18/06	Change	3 Mos.	6 Mos.	12 Mos.
M1 (Currency+demand deposits)	1371.0	1343.3	27.7	3.2%	-0.5%	-0.4%
M2 (M1+savings+small time deposits)	7042.1	7011.3	30.8	9.1%	6.1%	5.4%

UNS GAS, INC.

DOCKET NO. G-04204A-06-0463

TABLE OF CONTENTS TO SCHEDULES WAR

SCHEDULE #

WAR - 1	COST OF CAPITAL SUMMARY
WAR - 2	DCF COST OF EQUITY CAPITAL
WAR - 3	DIVIDEND YIELD CALCULATION
WAR - 4	DIVIDEND GROWTH RATE CALCULATION
WAR - 5	DIVIDEND GROWTH COMPONENTS
WAR - 6	GROWTH RATE COMPARISON
WAR - 7	CAPM COST OF EQUITY CAPITAL
WAR - 8	ECONOMIC INDICATORS - 1990 TO PRESENT
WAR - 9	CAPITAL STRUCTURES OF SAMPLE COMPANIES

UNS GAS, INC.

TEST YEAR ENDED DECEMBER 31, 2005

COST OF CAPITAL SUMMARY

DOCKET NO. G-04204A-06-0463

SCHEDULE WAR - 1

PAGE 1 OF 3

WEIGHTED COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) CAPITALIZATION PER COMPANY	(B) RUCO ADJUSTMENTS	(C) RUCO ADJUSTED CAPITALIZATION	(D) CAPITAL RATIO	(E) COST	(F) WEIGHTED COST
1	DEBT	\$ 98,859	\$ -	\$ 98,859	50.00%	6.23%	3.12%
2	PREFERRED STOCK	-	-	-	0.00%	0.00%	0.00%
3	COMMON EQUITY	98,859	-	98,859	50.00%	9.64%	4.82%
4	TOTAL CAPITALIZATION	\$ 197,718	\$ -	\$ 197,718	100.00%		

5 WEIGHTED COST OF CAPITAL

7.93%

REFERENCES:

COLUMN (A): COMPANY SCHEDULE D-1

COLUMN (B): TESTIMONY, WAR

COLUMN (C): COLUMN (A) + COLUMN (B)

COLUMN (D): COLUMN (C) + COLUMN (C), LINE 4

COLUMN (E): LINE 1 - SCHEDULE WAR-1, PAGE 2; LINE 3 - SCHEDULE WAR-1, PAGE 3

COLUMN (F): COLUMN (D) x COLUMN (E)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
COST OF CAPITAL SUMMARY

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 1
PAGE 2 OF 3

WEIGHTED COST OF DEBT

LINE NO.	(A) DESCRIPTION	(B)		(C)		(D)		(E)		(F)	
		BALANCE		ANNUAL INTEREST		INTEREST RATE		BALANCE RATIOS		WEIGHTED COST OF DEBT	
1	UNS GAS SERIES A BONDS	\$	50,000	\$	3,115	6.230%		50.00%		3.115%	
2	UNS GAS SERIES B BONDS		50,000		3,115	6.230%		50.00%		3.115%	
3	TOTALS	\$	100,000	\$	6,230			100.00%			

4 WEIGHTED COST OF DEBT

6.23%

REFERENCES:

- COLUMN (A): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (B): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (C): COMPANY SCHEDULE D-2, PAGE 2
COLUMN (D): COLUMN (C) + COLUMN (D)
COLUMN (E): COLUMN (A) LINES 1 AND 2 + LINE 3
COLUMN (F): COLUMN (D) x COLUMN (E)

COST OF COMMON EQUITY CALCULATION

LINE NO.		
1	<u>DCF METHODOLOGY</u>	
2	DCF - SINGLE-STAGE CONSTANT GROWTH MODEL ESTIMATE	8.74% SCHEDULE WAR-2, COLUMN (C), LINE 11
3	<u>CAPM METHODOLOGY</u>	
4	CAPM - GEOMETRIC MEAN ESTIMATE	9.70% SCHEDULE WAR-7 PAGE 1, COLUMN (B), LINE 11
5	CAPM - ARITHMETIC MEAN ESTIMATE	11.36% SCHEDULE WAR-7 PAGE 2, COLUMN (B), LINE 11
6	AVERAGE OF CAPM ESTIMATES	10.53% (LINE 4 + LINE 5) ÷ 2
7	AVERAGE	9.64% (LINE 2 + LINE 6) ÷ 2

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DCF COST OF EQUITY CAPITAL

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) DIVIDEND YIELD	+	(B) GROWTH RATE (g)	=	(C) DCF COST OF EQUITY CAPITAL
1	ATG	AGL RESOURCES, INC.	3.79%	+	4.31%	=	8.10%
2	ATO	ATMOS ENERGY CORPORATION	4.00%	+	5.39%	=	9.39%
3	LG	LACLEDE GROUP, INC.	4.01%	+	4.88%	=	8.89%
4	NJR	NEW JERSEY RESOURCES CORP.	2.91%	+	6.23%	=	9.14%
5	GAS	NICOR, INC.	3.91%	+	4.26%	=	8.17%
6	NWN	NORTHWEST NATURAL GAS CO.	3.41%	+	4.22%	=	7.63%
7	PNY	PIEDMONT NATURAL GAS COMPANY	3.53%	+	4.16%	=	7.69%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	2.72%	+	7.08%	=	9.80%
9	SWX	SOUTHWEST GAS CORP.	2.15%	+	8.17%	=	10.32%
10	WGL	WGL HOLDINGS, INC.	4.15%	+	4.14%	=	8.29%
11	NATURAL GAS LDC AVERAGE						8.74%

REFERENCES:

COLUMN (A): SCHEDULE WAR - 3, COLUMN C
COLUMN (B): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND YIELD CALCULATION

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 3

LINE NO.	STOCK SYMBOL	COMPANY	(A) ESTIMATED DIVIDEND (PER SHARE) +	(B) AVERAGE STOCK PRICE (PER SHARE) =	(C) DIVIDEND YIELD
1	ATG	AGL RESOURCES, INC.	\$1.48 +	\$39.04 =	3.79%
2	ATO	ATMOS ENERGY CORPORATION	1.28 +	31.98 =	4.00%
3	LG	LACLEDE GROUP, INC.	1.42 +	35.45 =	4.01%
4	NJR	NEW JERSEY RESOURCES CORP.	1.44 +	49.52 =	2.91%
5	GAS	NICOR, INC.	1.86 +	47.56 =	3.91%
6	NWN	NORTHWEST NATURAL GAS CO.	1.42 +	41.59 =	3.41%
7	PNY	PIEDMONT NATURAL GAS COMPANY	0.96 +	27.21 =	3.53%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	0.90 +	33.08 =	2.72%
9	SWX	SOUTHWEST GAS CORP.	0.82 +	38.14 =	2.15%
10	WGL	WGL HOLDINGS, INC.	1.35 +	32.56 =	4.15%
11	NATURAL GAS LDC AVERAGE				3.46%

REFERENCES:

COLUMN (A): ESTIMATED 12 MONTH DIVIDEND REPORTED IN VALUE LINE INVESTMENT

SURVEY - RATINGS & REPORTS DATED 12/15/2006.

COLUMN (B): EIGHT WEEK AVERAGE OF CLOSING PRICES FROM 11/27/2006 TO 01/19/2007

STOCK QUOTES OBTAINED THROUGH BIG CHARTS WEB SITE - HISTORICAL QUOTES (www.bigcharts.com).
COLUMN (C): COLUMN (A) ÷ COLUMN (B)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 4
PAGE 1 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) INTERNAL GROWTH (br)	+	(B) EXTERNAL GROWTH (sv)	=	(C) DIVIDEND GROWTH (g)
1	ATG	AGL RESOURCES, INC.	4.25%	+	0.06%	=	4.31%
2	ATO	ATMOS ENERGY CORPORATION	4.50%	+	0.89%	=	5.39%
3	LG	LACLEDE GROUP, INC.	4.00%	+	0.88%	=	4.88%
4	NJR	NEW JERSEY RESOURCES CORP.	5.75%	+	0.48%	=	6.23%
5	GAS	NICOR, INC.	3.75%	+	0.51%	=	4.26%
6	NWN	NORTHWEST NATURAL GAS CO.	4.00%	+	0.22%	=	4.22%
7	PNY	PIEDMONT NATURAL GAS COMPANY	4.00%	+	0.16%	=	4.16%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	6.25%	+	0.83%	=	7.08%
9	SWX	SOUTHWEST GAS CORP.	6.50%	+	1.67%	=	8.17%
10	WGL	WGL HOLDINGS, INC.	4.00%	+	0.14%	=	4.14%
11	NATURAL GAS LDC AVERAGE						5.28%

REFERENCES:
COLUMN (A): TESTIMONY, WAR
COLUMN (B): SCHEDULE WAR - 4, PAGE 2, COLUMN C
COLUMN (C): COLUMN (A) + COLUMN (B)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH RATE CALCULATION

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 4
PAGE 2 OF 2

LINE NO.	STOCK SYMBOL	COMPANY	(A) SHARE GROWTH	(B) $x \{ [((M + B) + 1) + 2] - 1 \}$	(C) EXTERNAL GROWTH (sv)
1	ATG	AGL RESOURCES, INC.	0.13%	$x \{ [((1.91) + 1) + 2] - 1 \}$	= 0.06%
2	ATO	ATMOS ENERGY CORPORATION	3.00%	$x \{ [((1.59) + 1) + 2] - 1 \}$	= 0.89%
3	LG	LACLEDE GROUP, INC.	2.00%	$x \{ [((1.88) + 1) + 2] - 1 \}$	= 0.88%
4	NJR	NEW JERSEY RESOURCES CORP.	0.80%	$x \{ [((2.20) + 1) + 2] - 1 \}$	= 0.48%
5	GAS	NICOR, INC.	0.70%	$x \{ [((2.46) + 1) + 2] - 1 \}$	= 0.51%
6	NWN	NORTHWEST NATURAL GAS CO.	0.50%	$x \{ [((1.88) + 1) + 2] - 1 \}$	= 0.22%
7	PNY	PIEDMONT NATURAL GAS COMPANY	0.25%	$x \{ [((2.29) + 1) + 2] - 1 \}$	= 0.16%
8	SJI	SOUTH JERSEY INDUSTRIES, INC.	1.25%	$x \{ [((2.32) + 1) + 2] - 1 \}$	= 0.83%
9	SWX	SOUTHWEST GAS CORP.	3.50%	$x \{ [((1.96) + 1) + 2] - 1 \}$	= 1.67%
10	WGL	WGL HOLDINGS, INC.	0.35%	$x \{ [((1.78) + 1) + 2] - 1 \}$	= 0.14%
11	NATURAL GAS LDC AVERAGE				0.58%

REFERENCES:

COLUMN (A): TESTIMONY, WAR
COLUMN (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 5
PAGE 1 OF 3

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) x	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	ATG	AGL RESOURCES, INC.	2001	0.2800	12.30%	3.44%	12.19	55.10	
2			2002	0.4066	14.50%	5.90%	12.52	56.70	
3			2003	0.4663	14.00%	6.53%	14.66	64.50	
4			2004	0.4956	11.00%	5.45%	18.06	76.70	
5			2005	0.4758	12.90%	6.14%	19.29	77.70	
6			GROWTH 2001 - 2005			5.49%	8.50%		8.97%
7			2006	0.4340	13.00%	5.64%		77.90	0.26%
8			2007	0.4148	12.50%	5.19%		78.00	0.19%
9			2008-11	0.3966	12.00%	4.76%	6.50%	78.30	0.15%
10									
11	ATO	ATMOS ENERGY CORPORATION	2001	0.2109	9.60%	2.02%	14.31	40.79	
12			2002	0.1862	10.40%	1.94%	13.75	41.68	
13			2003	0.2982	9.30%	2.77%	16.66	51.48	
14			2004	0.2278	7.60%	1.73%	18.05	62.80	
15			2005	0.2791	8.50%	2.37%	19.90	80.54	
16			GROWTH 2001 - 2005			2.17%	8.50%		18.54%
17			2006	0.3700	10.00%	3.70%		82.00	1.81%
18			2007	0.3436	9.50%	3.26%		84.00	2.13%
19			2008-11	0.4490	11.00%	4.94%	4.00%	100.00	4.42%
20									
21	LG	LACLEDE GROUP, INC.	2001	0.1677	10.50%	1.76%	15.26	18.88	
22			2002	-0.1356	7.80%	NMF	15.07	18.96	
23			2003	0.2637	11.60%	3.06%	15.65	19.11	
24			2004	0.2582	10.10%	2.61%	16.96	20.98	
25			2005	0.2789	10.90%	3.04%	17.31	21.17	
26			GROWTH 2001 - 2005			2.62%	2.50%		2.90%
27			2006	0.4093	12.50%	5.12%		21.50	1.56%
28			2007	0.3256	10.50%	3.42%		21.50	0.78%
29			2008-11	0.3800	9.50%	3.61%	7.50%	24.00	2.54%
30									
31	NJR	NEW JERSEY RESOURCES CORP.	2001	0.4000	14.90%	5.96%	13.20	26.66	
32			2002	0.4258	15.70%	6.69%	13.06	27.67	
33			2003	0.4790	15.60%	7.47%	15.38	27.23	
34			2004	0.4902	15.30%	7.50%	16.87	27.74	
35			2005	0.4888	17.00%	8.28%	15.90	27.55	
36			GROWTH 2001 - 2005			7.18%	8.50%		0.82%
37			2006	0.4857	12.60%	6.12%		27.63	0.29%
38			2007	0.4759	12.50%	5.95%		28.00	0.81%
39			2008-11	0.4925	12.00%	5.91%	8.50%	28.50	0.68%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (c) x	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	GAS	NICOR, INC.	2001	0.4153	18.70%	7.77%	16.39	44.40	
2			2002	0.3611	17.50%	6.32%	16.55	44.01	
3			2003	0.1185	12.30%	1.46%	17.13	44.04	
4			2004	0.1622	13.10%	2.12%	16.99	44.10	
5			2005	0.1806	12.50%	2.26%	18.36	44.18	
6			GROWTH 2001 - 2005	3.98%			1.50%		-0.12%
7			2006	0.3111	14.00%	4.36%		44.50	0.72%
8			2007	0.3015	13.00%	3.92%		44.60	0.47%
9			2008-11	0.2857	12.00%	3.43%	4.50%	44.90	0.32%
10									
11	NWN	NORTHWEST NATURAL GAS CO.	2001	0.3351	10.20%	3.42%	18.56	25.23	
12			2002	0.2222	8.50%	1.89%	18.88	25.59	
13			2003	0.2784	9.00%	2.51%	19.52	25.94	
14			2004	0.3011	8.90%	2.66%	20.64	27.55	
15			2005	0.3744	9.90%	3.71%	21.28	27.58	
16			GROWTH 2001 - 2005			2.84%	3.50%		2.25%
17			2006	0.3822	10.00%	3.82%		27.50	-0.29%
18			2007	0.4042	10.50%	4.24%		27.80	0.40%
19			2008-11	0.4035	10.50%	4.24%	3.50%	28.00	0.30%
20									
21	PNY	PIEDMONT NATURAL GAS COMPANY	2001	0.2475	11.70%	2.90%	8.63	64.93	
22			2002	0.1579	10.60%	1.67%	8.91	66.18	
23			2003	0.2613	11.80%	3.08%	9.36	67.31	
24			2004	0.3307	11.10%	3.67%	11.15	76.67	
25			2005	0.3106	11.50%	3.57%	11.53	76.70	
26			GROWTH 2001 - 2005			2.98%	6.50%		4.25%
27			2006	0.2615	11.00%	2.88%		75.00	-2.22%
28			2007	0.2857	11.50%	3.29%		74.50	-1.44%
29			2008-11	0.3314	12.50%	4.14%	3.00%	72.50	-1.12%
30									
31	SJI	SOUTH JERSEY INDUSTRIES, INC.	2001	0.3565	12.80%	4.56%	7.81	23.72	
32			2002	0.3852	12.50%	4.82%	9.67	24.41	
33			2003	0.4307	11.60%	5.00%	11.26	26.46	
34			2004	0.4810	12.50%	6.01%	12.41	27.76	
35			2005	0.4971	12.40%	6.16%	13.50	28.98	
36			GROWTH 2001 - 2005			5.31%	13.00%		5.13%
37			2006	0.5027	13.00%	6.54%		29.30	1.10%
38			2007	0.4974	12.50%	6.22%		29.60	1.06%
39			2008-11	0.5000	13.00%	6.50%	6.00%	31.00	1.36%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006
COLUMN (C): COLUMN (A) x COLUMN (B)
COLUMN (D): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY
COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE
COLUMN (E): VALUE LINE INVESTMENT SURVEY
COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
DIVIDEND GROWTH COMPONENTS

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 5
PAGE 3 OF 3

LINE NO.	STOCK SYMBOL	LOCAL DISTRIBUTION COMPANY NAME	OPERATING PERIOD	(A) RETENTION RATIO (b)	(B) RETURN ON BOOK EQUITY (f) =	(C) DIVIDEND GROWTH (g)	(D) BOOK VALUE (\$/SHARE)	(E) SHARES OUTST. (MILLIONS)	(F) SHARE GROWTH
1	SWX	SOUTHWEST GAS CORP.	2001	0.2870	6.60%	1.89%	17.27	32.49	
2			2002	0.2931	6.50%	1.91%	17.91	33.29	
3			2003	0.2743	6.10%	1.67%	18.42	34.23	
4			2004	0.5060	8.30%	4.20%	19.18	36.79	
5			2005	0.3440	6.40%	2.20%	19.10	39.33	
6			GROWTH 2001 - 2005			2.37%	3.00%		4.89%
7			2006	0.5795	10.50%	6.08%		42.00	6.79%
8			2007	0.5900	9.50%	5.61%		43.00	4.56%
9			2009-11	0.6511	9.50%	6.19%	4.50%	45.00	2.73%
10									
11	WGL	WGL HOLDINGS, INC.	2001	0.3298	11.20%	3.69%	16.24	48.54	
12			2002	-0.1140	11.20%	NMF	15.78	48.56	
13			2003	0.4435	14.00%	6.21%	16.25	48.63	
14			2004	0.3434	11.70%	4.02%	16.95	48.67	
15			2005	0.3744	12.00%	4.49%	17.80	48.65	
16			GROWTH 2001 - 2005			4.60%	3.00%		0.06%
17			2006	0.2895	9.50%	2.75%		48.88	0.47%
18			2007	0.2737	10.00%	2.74%		49.00	0.36%
19			2009-11	0.3702	11.00%	4.07%	3.50%	49.50	0.35%

REFERENCES:

COLUMNS (A) & (B): VALUE LINE INVESTMENT SURVEY RATINGS & REPORTS DATED 12/15/2006

COLUMN (C): COLUMN (A) x COLUMN (B)

COLUMN (C): LINES 6, 16 & 26, SIMPLE AVERAGE GROWTH, 2001 - 2005

COLUMN (D): VALUE LINE INVESTMENT SURVEY

COLUMN (D): LINES 6, 16 & 26, COMPOUND GROWTH RATE

COLUMN (E): VALUE LINE INVESTMENT SURVEY

COLUMN (F): COMPOUND GROWTH RATES OF DATES SHOWN

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
GROWTH RATE COMPARISON

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 6

LINE NO.	STOCK SYMBOL	(A) (br) + (sv)	(B) ZACKS EPS	(C) VALUE LINE PROJECTED DPS	BVPS	EPS	(D) VALUE LINE HISTORIC DPS	BVPS	(E) VALUE LINE & ZACKS AVGS.	EPS	(F) 5 - YEAR COMPOUND HISTORY DPS	BVPS
1	ATG	4.31%	4.60%	6.50%	6.50%	13.50%	2.00%	8.50%	6.51%	13.39%	4.74%	12.16%
2	ATO	5.39%	5.50%	2.00%	4.00%	6.50%	2.00%	8.50%	5.00%	4.00%	1.68%	8.59%
3	LG	4.88%	-	2.50%	7.50%	4.50%	0.50%	2.50%	3.75%	4.23%	0.56%	3.20%
4	NJR	6.23%	6.00%	4.50%	8.50%	8.00%	3.50%	8.50%	6.21%	7.97%	3.83%	4.76%
5	GAS	4.26%	2.50%	1.00%	4.50%	-3.50%	3.50%	1.50%	1.93%	-6.81%	1.39%	2.88%
6	NWN	4.22%	5.30%	4.00%	3.50%	5.00%	1.00%	3.50%	4.19%	2.93%	1.37%	3.48%
7	PNY	4.16%	5.60%	5.50%	3.00%	5.00%	5.00%	6.50%	5.23%	6.92%	4.61%	7.51%
8	SJI	7.08%	6.00%	6.00%	6.00%	11.50%	2.50%	13.00%	7.43%	10.43%	3.83%	14.66%
9	SWX	8.17%	6.00%	NIL	4.50%	-0.50%	-	3.00%	4.40%	2.11%	0.00%	2.55%
10	WGL	4.14%	3.30%	2.00%	3.50%	6.00%	1.50%	3.00%	2.97%	2.93%	1.17%	2.32%
11					5.45%	5.15%	5.60%	5.85%		4.81%	2.32%	6.21%
12	AVERAGES	5.28%	4.98%	4.79%			4.61%		4.76%		4.45%	

REFERENCES:

COLUMN (A): SCHEDULE WAR - 4, PAGE 1, COLUMN C
COLUMN (B): ZACKS INVESTMENT RESEARCH (www.zacks.com)
COLUMN (C): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006
COLUMN (D): VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006
COLUMN (E): SIMPLE AVERAGE OF COLUMNS (B) THRU (D) LINES 1, 3, 5 AND 7
COLUMN (F): 5-YEAR ANNUAL GROWTH RATE CALCULATED WITH DATA COMPILED FROM VALUE LINE INVESTMENT SURVEY - RATINGS & REPORTS DATED 12/15/2006

BASED ON A GEOMETRIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B)	
		k	$=$	r_f	$+ [\beta (r_m - r_f)]$	$=$	EXPECTED RETURN
1	ATG	k	$=$	5.05%	$+ [0.95 \times (10.40\% - 5.05\%)]$	$=$	10.13%
2	ATO	k	$=$	5.05%	$+ [0.80 \times (10.40\% - 5.05\%)]$	$=$	9.33%
3	LG	k	$=$	5.05%	$+ [0.90 \times (10.40\% - 5.05\%)]$	$=$	9.86%
4	NJR	k	$=$	5.05%	$+ [0.80 \times (10.40\% - 5.05\%)]$	$=$	9.33%
5	GAS	k	$=$	5.05%	$+ [1.30 \times (10.40\% - 5.05\%)]$	$=$	12.01%
6	NWN	k	$=$	5.05%	$+ [0.75 \times (10.40\% - 5.05\%)]$	$=$	9.06%
7	PNY	k	$=$	5.05%	$+ [0.80 \times (10.40\% - 5.05\%)]$	$=$	9.33%
8	SJI	k	$=$	5.05%	$+ [0.70 \times (10.40\% - 5.05\%)]$	$=$	8.79%
9	SWX	k	$=$	5.05%	$+ [0.85 \times (10.40\% - 5.05\%)]$	$=$	9.60%
10	WGL	k	$=$	5.05%	$+ [0.85 \times (10.40\% - 5.05\%)]$	$=$	9.60%
11	AVERAGE				<u>0.87</u>		<u>9.70%</u>

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE:

- k = THE EXPECTED RETURN ON A GIVEN SECURITY
- r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
- β = THE BETA COEFFICIENT OF A GIVEN SECURITY
- r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

(a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/22/2006 THROUGH 01/26/2007 WAS USED AS A RISK FREE RATE OF RETURN.

(b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2005 YEARBOOK.

BASED ON AN ARITHMETIC MEAN:

LINE NO.	STOCK SYMBOL	(A)				(B)	
		k	$=$	$r_f + [\beta (r_m - r_f)]$	$=$	EXPECTED RETURN	
1	ATG	k	$=$	$5.05\% + [0.95 (12.30\% - 5.05\%)]$	$=$	11.94%	
2	ATO	k	$=$	$5.05\% + [0.80 (12.30\% - 5.05\%)]$	$=$	10.85%	
3	LG	k	$=$	$5.05\% + [0.90 (12.30\% - 5.05\%)]$	$=$	11.57%	
4	NJR	k	$=$	$5.05\% + [0.80 (12.30\% - 5.05\%)]$	$=$	10.85%	
5	GAS	k	$=$	$5.05\% + [1.30 (12.30\% - 5.05\%)]$	$=$	14.48%	
6	NWN	k	$=$	$5.05\% + [0.75 (12.30\% - 5.05\%)]$	$=$	10.49%	
7	PNY	k	$=$	$5.05\% + [0.80 (12.30\% - 5.05\%)]$	$=$	10.85%	
8	SJI	k	$=$	$5.05\% + [0.70 (12.30\% - 5.05\%)]$	$=$	10.12%	
9	SWX	k	$=$	$5.05\% + [0.85 (12.30\% - 5.05\%)]$	$=$	11.21%	
10	WGL	k	$=$	$5.05\% + [0.85 (12.30\% - 5.05\%)]$	$=$	11.21%	
11	AVERAGE			0.87		11.36%	

REFERENCES:

COLUMN (A): SHARPE LITNER CAPITAL ASSET PRICING MODEL ("CAPM") FORMULA

$$k = r_f + [\beta (r_m - r_f)]$$

WHERE: k = THE EXPECTED RETURN ON A GIVEN SECURITY
 r_f = RATE OF RETURN ON A RISK FREE ASSET PROXY (a)
 β = THE BETA COEFFICIENT OF A GIVEN SECURITY
 r_m = PROXY FOR THE MARKET RATE OF RETURN (b)

COLUMN (B): EXPECTED RATE OF RETURN USING THE CAPM FORMULA

NOTES

- (a) A 6-WEEK AVERAGE OF THE 91-DAY T-BILL RATES THAT APPEARED IN VALUE LINE INVESTMENT SURVEY'S "SELECTION & OPINIONS" PUBLICATION FROM 12/22/2006 THROUGH 01/26/2007 WAS USED AS A RISK FREE RATE OF RETURN.
- (b) THE MARKET RATE PROXY USED WAS THE ARITHMETIC MEAN FOR S&P 500 RETURNS OVER THE 1926 - 2005 PERIOD. THE DATA WAS OBTAINED FROM IBBOTSON ASSOCIATES' STOCKS, BONDS, BILLS AND INFLATION: 2005 YEARBOOK.

UNS GAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
ECONOMIC INDICATORS - 1990 TO PRESENT

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 8

LINE NO.	YEAR	(A) CHANGE IN CPI	(B) CHANGE IN GDP (1996 \$)	(C) PRIME RATE	(D) FED. DISC. RATE	(E) FED. FUNDS RATE	(F) 91-DAY T-BILLS	(G) 30-YR T-BONDS	(H) A-RATED UTIL. BOND YIELD	(I) Baa-RATED UTIL. BOND YIELD
1	1990	5.40%	1.90%	10.01%	6.98%	8.10%	7.49%	7.49%	9.86%	10.06%
2	1991	4.21%	-0.20%	8.46%	5.45%	5.69%	5.36%	5.36%	9.36%	9.55%
3	1992	3.01%	3.30%	6.25%	3.25%	3.52%	3.43%	3.43%	8.68%	8.86%
4	1993	2.99%	2.70%	6.00%	3.00%	3.02%	3.00%	3.00%	7.59%	7.91%
5	1994	2.56%	4.00%	7.14%	3.60%	4.20%	4.25%	4.25%	8.31%	8.63%
6	1995	2.83%	2.50%	8.83%	5.21%	5.84%	5.49%	5.49%	7.89%	8.29%
7	1996	2.95%	3.70%	8.27%	5.02%	5.30%	5.01%	5.01%	7.75%	8.17%
8	1997	1.70%	4.50%	8.44%	5.00%	5.46%	5.06%	5.06%	7.60%	8.12%
9	1998	1.60%	4.20%	8.35%	4.92%	5.35%	4.78%	4.78%	7.04%	7.27%
10	1999	2.70%	4.50%	7.99%	4.62%	4.97%	4.64%	4.64%	7.62%	7.88%
11	2000	3.40%	3.70%	9.23%	5.73%	6.24%	5.82%	5.82%	8.24%	8.36%
12	2001	1.60%	0.80%	6.92%	3.41%	3.88%	3.38%	3.38%	7.59%	8.02%
13	2002	2.40%	1.60%	4.67%	1.17%	1.66%	1.60%	1.60%	7.41%	7.98%
14	2003	1.90%	2.50%	4.12%	2.03%	1.13%	1.01%	1.01%	6.18%	6.64%
15	2004	3.30%	3.90%	4.34%	2.35%	1.35%	1.37%	1.37%	5.77%	6.20%
16	2005	3.40%	3.20%	6.16%	4.16%	3.16%	3.17%	3.17%	5.38%	5.78%
17	2006	2.50%	3.40%	7.97%	5.97%	4.97%	4.83%	4.88%	5.94%	6.30%
18	CURRENT	2.50%	3.50% (a)	8.25%	6.25%	5.25%	5.10%	5.10%	5.86%	6.14%

REFERENCES:

COLUMN (A): 1990 - CURRENT, U.S. DEPARTMENT OF LABOR, BUREAU OF LABOR STATISTICS WEB SITE
COLUMN (B): 1990 - CURRENT, U.S. DEPARTMENT OF COMMERCE, BUREAU OF ECONOMIC ANALYSIS WEB SITE
COLUMN (C) THROUGH (G): 1990 - 2003, FEDERAL RESERVE BANK OF ST. LOUIS WEB SITE
COLUMN (C) THROUGH (F): CURRENT, THE VALUE LINE INVESTMENT SURVEY, DATED 01/26/2007
COLUMN (G) THROUGH (I): 1990 - 2000, MOODY'S PUBLIC UTILITY REPORTS
COLUMN (H) THROUGH (J): 2001, MORGENTHAU PUBLIC UTILITY MANUAL
COLUMN (H) THROUGH (I): 2003 MORGENTHAU NEWS REPORTS

NOTES

(a) FOURTH QUARTER 2006

UNSGAS, INC.
TEST YEAR ENDED DECEMBER 31, 2005
CAPITAL STRUCTURES OF SAMPLE COMPANIES

DOCKET NO. G-04204A-06-0463
SCHEDULE WAR - 9

LINE NO.	ATG	PCT.	ATO	PCT.	LG	PCT.	NJR	PCT.	GAS	PCT.
1 DEBT	\$ 1,615.0	51.9%	\$ 1,602.4	42.3%	\$ 340.5	48.1%	\$ 317.2	42.0%	\$ 1,071.8	56.9%
2										
3 PREFERRED STOCK	0.0	0.0%	0.0	0.0%	0.9	0.1%	0.0	0.0%	0.6	0.0%
4										
5 COMMON EQUITY	1,499.0	48.1%	2,183.1	57.7%	366.5	51.8%	438.1	58.0%	811.3	43.1%
6										
7 TOTALS	\$ 3,114.0	100%	\$ 3,785.5	100%	\$ 707.9	100%	\$ 755.3	100%	\$ 1,883.7	100%
8										
9										
	NWN	PCT.	PNY	PCT.	SJI	PCT.	SWX	PCT.	WGL	PCT.
10										
11										
12 DEBT	\$ 521.5	47.0%	\$ 625.0	41.4%	\$ 328.9	48.7%	\$ 1,224.9	59.0%	\$ 584.2	38.8%
13										
14 PREFERRED STOCK	0.0	0.0%	0.0	0.0%	1.6	0.2%	100.0	4.8%	28.2	1.9%
15										
16 COMMON EQUITY	586.9	53.0%	884.2	58.6%	344.4	51.0%	751.1	36.2%	894.0	59.3%
17										
18 TOTALS	\$ 1,108.4	100%	\$ 1,509.2	100%	\$ 674.9	100%	\$ 2,076.0	100%	\$ 1,506.4	100%
19										
20										
	NATURAL GAS LDC AVERAGE	PCT.								
21										
22										
23										
24 DEBT	\$ 823.1	48.1%								
25										
26 PREFERRED STOCK	13.1	0.8%								
27										
28 COMMON EQUITY	875.9	51.2%								
29										
30 TOTALS	\$ 1,712.1	100%								

REFERENCE:
MOST RECENT SEC 10-K FILINGS OR ANNUAL REPORTS

UNS GAS, INC.

DOCKET NO. G-04204A-06-0463 et al.

DIRECT TESTIMONY

OF

RODNEY L. MOORE

ON BEHALF OF

THE

RESIDENTIAL UTILITY CONSUMER OFFICE

FEBRUARY 9, 2007

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SCHEDULES RLM-1 THROUGH RLM-17

EXHIBIT A

INTRODUCTION

Q. Please state your name, position, employer and address.

A. Rodney L. Moore, Public Utilities Analyst V
Residential Utility Consumer Office ("RUCO")
1110 West Washington Street, Suite 220
Phoenix, Arizona 85007.

Q. Please state your educational background and qualifications in the utility regulation field.

A. Appendix 1, which is attached to this testimony, describes my educational background and includes a list of the rate case and regulatory matters in which I have participated.

Q. Please state the purpose of your testimony.

A. The purpose of my testimony is to present RUCO's recommendations regarding UNS Gas Corporation's ("Company" or "UNS") application for a determination of the current fair value of its utility plant and property and for increases in its rates and charges based thereon for gas service. The test year utilized by the Company in connection with the preparation of this application is the 12-month period that ended December 31, 2005.

BACKGROUND

Q. Please describe your work effort on this project.

A. I obtained and reviewed data and performed analytical procedures necessary to understand the Company's filing as it relates to operating income, rate base, the Company's overall revenue requirement and rate design. My recommendations are based on these analyses. Procedures performed include the in-house formulation and analysis of seven sets of data requests, the review and analysis of Company responses to Arizona Corporation Commission ("Commission" or "ACC") Staff data requests, conversations with Company personnel and the review of prior ACC dockets related to UNS.

In Decision No. 66028, dated July 03, 2003, the Commission approved a Settlement Agreement, which authorized UNS to acquire the electric and gas assets of Citizens Communications Company ("Citizens"). This Settlement Agreement is the basis for the Company's present rates and charges for utility service. The test year used in that proceeding was the 12-month period ending December 31, 2001.

Q. What areas will you address in your testimony?

A. I will address issues related to rate base, operating income, revenue requirements and rate design. RUCO's witness Mr. William Rigsby will provide an analysis of the cost of capital.

1 RUCO's witness Ms. Marylee Diaz Cortez will also address additional
2 issues related to rate base, operating income, rate design and revenue
3 requirements.

4
5 Q. Please identify the exhibits you are sponsoring.

6 A. I am sponsoring Schedules numbered RLM-1 through RLM-17.

7
8 **SUMMARY OF ADJUSTMENTS**

9 Q. Please summarize the adjustments to rate base, operating income and
10 rate design issues addressed in your testimony.

11 A. My testimony addresses the following issues:

12 **Rate Base**

13 Fair Value Rate Base – This adjustment states the fair value rate base by
14 giving equal weighting (50/50 split) to RUCO's adjusted original cost rate
15 base and RUCO's calculation of the reconstruction cost new depreciated
16 rate base.

17 Pre-Acquisition Unsubstantiated Gross Plant and Accumulated
18 Depreciation – This adjustment disallows the value of plant UNS was
19 unable to verify as part of the rate base acquired from Citizens on August
20 11, 2003.

21 Test-Year Accumulated Depreciation – This adjustment restates the
22 accumulated depreciation value to reflect RUCO's recalculation using the
23 authorized depreciation rates.

1 Construction Work In Progress – This adjustment is addressed by RUCO
2 witness Ms. Diaz Cortez.

3 Acquisition Adjustment - This adjustment is addressed by RUCO witness
4 Ms. Diaz Cortez.

5 Geographic Information System - This adjustment is addressed by RUCO
6 witness Ms. Diaz Cortez.

7 Allowance For Working Capital - This adjustment is addressed by RUCO
8 witness Ms. Diaz Cortez.

9 Southern Union Acquisition – No adjustment.

10 Griffith Power Plant – No adjustment.

11 Build-Out Plant – No adjustment.

12 Customer Assistance Residential Energy Support Expense Asset – No
13 adjustment.

14 **Operating Income**

15 Worker's Compensation Expense – This adjustment converts the amount
16 reflected in the test-year operating expense from a cash basis to an
17 accrual.

18 Incentive Compensation Expense – This adjustment removes all incentive
19 compensation expenses, because the awards were paid despite non-
20 performance of goals and did not provide additional benefits to ratepayers.

21

22

23

1 Depreciation and Amortization Expense Annualization – This adjustment
2 reflects the level of test-year depreciation expense based on RUCO's
3 adjusted gross plant in service and the Company-proposed depreciation
4 rates.

5 Postage Expense – This adjustment reflects the RUCO's annualization of
6 the customer base and a known and measurable postal increase.

7 Customer Service Cost Allocations – This adjustment disallows the
8 Company's increased customer service expenditures, because the
9 additional costs were imprudent and did not provide additional benefits to
10 ratepayers.

11 RUCO Adjustments To Test-Year Operating Expenses – This adjustment
12 to operating expenses removes inappropriate expenditures not necessary
13 in the provisioning of gas service.

14 Property Tax Expense – This adjustment reflects the appropriate level of
15 property tax expense given RUCO's recommended level of net plant in
16 service.

17 Rate Case Expense – This adjustment is based on RUCO's determination
18 of the fair and reasonable cost to UNS ratepayers for this application
19 process.

20 American Gas Association Dues – This adjustment removes the portion of
21 the dues dedicated to marketing and lobbying.

22

23

1 Non-Recurring/Atypical Expenses – This adjustment removes costs not
2 expected to recur and considered atypical for inclusion in test year
3 expenses.

4 Pension and Benefit Expenses – This adjustment reflects RUCO's
5 disallowance of the supplemental executive retirement plan.

6 Amortization of GIS Expenditures - This adjustment is addressed by
7 RUCO witness Ms. Diaz Cortez.

8 Fleet Fuel Expense - This adjustment is addressed by RUCO witness Ms.
9 Diaz Cortez.

10 Customer Annualization - This adjustment is addressed by RUCO witness
11 Ms. Diaz Cortez.

12 Weather Normalization - This adjustment is addressed by RUCO witness
13 Ms. Diaz Cortez.

14 Corporate Cost Allocations – This adjustment is addressed by RUCO
15 witness Ms. Diaz Cortez.

16 Bad Debt Expense – This adjustment is addressed by RUCO witness Ms.
17 Diaz Cortez.

18 Depreciation and Property Tax for Construction Work In Progress – This
19 adjustment is addressed by RUCO witness Ms. Diaz Cortez.

20 Out of Period Expenses – This adjustment is addressed by RUCO witness
21 Ms. Diaz Cortez.

22 Legal Expense - This adjustment is addressed by RUCO witness Ms. Diaz
23 Cortez.

Griffith Plant Operations – No adjustment.

Purchased Gas Cost and Gas Cost Revenue – No adjustment.

NSP Revenue and Gas Costs – No adjustment.

Payroll Expense – No adjustment.

Payroll Tax Expense – No adjustment.

Post Retirement Medical Expense – No adjustment.

Interest on Customer Deposits – No adjustment.

Year-End Accruals – No adjustment.

Advertising and Donation Expenses – No adjustment.

Customer Assistance Residential Energy Support Expense – No adjustment.

Gain on Sale of Property – No adjustment.

Income Tax Expense – This adjustment reflects income tax expenses calculated on RUCO's recommended revenues and expenses.

REVENUE REQUIREMENTS

Q. Please summarize the results of RUCO's analysis of the Company's filing and state RUCO's recommended revenue requirement.

A. As outlined in Schedule RLM-1, RUCO is recommending that the increase in the Company's revenue requirement not exceed:

<u>UNS</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$9,615,767	\$1,505,003	(\$8,110,764)

My recommended revenue requirement percentage increase versus the Company's proposal is as follows:

<u>UNS</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
20.39 %	3.18 %	-17.21 %

RUCO's recommended decrease in Fair Value Rate Base ("FVRB") based on the equal weighting of a 50/50 split between Original Cost Rate Base ("OCRB") and Reconstruction Cost New Depreciated Rate Base ("RCND") is summarized on Schedule RLM-1:

<u>UNS</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$191,177,714	\$171,223,175	(\$19,954,539)

The detail supporting RUCO's recommended rate base is presented on Schedules RLM-3, RLM-4, and RLM-5.

RUCO's recommended required operating income is shown on Schedule RLM-1 as:

<u>UNS</u>	<u>RUCO</u>	<u>DIFFERENCE</u>
\$14,204,479	\$11,480,374	(\$2,724,105)

Schedule RLM-1 presents the calculation of RUCO's recommended revenue requirement.

RATE BASE

Determination Of Fair Value Rate Base

Q. Please explain the basis for your determination of the FVRB as shown on Schedule RLM-1.

A. RUCO's determination of the FVRB consists of three elements. First, the value of the OCRB was restated to reflect RUCO's adjustment to the various rate base determinants. Second, the value of the RCND was computed. As shown on supporting Schedule RLM-2, RUCO computed RCND by multiplying RUCO's OCRB by the ratio of the Company's OCRB to its RCND as filed. Third, the FVRB was computed on an equally weighted basis (50/50 split) between RUCO's OCRB and RCND.

Q. Please elaborate on the first element of RUCO's FVRB determination.

A. The first element consists of several adjustments to the OCRB. The aggregate adjustment was corroborated between myself and RUCO witness Ms. Diaz Cortez. As shown on Schedule RLM-3, I was responsible for Adjustments No. 1 and No. 2. These adjustments established the initial level and subsequently calculated the present test-year level of gross plant in service and accumulated depreciation. Ms. Diaz Cortez analyzed the remaining adjustments.

RUCO Rate Base Adjustment No. 1 – Remove Unsubstantiated Pre-
Acquisition Gross Plant and Adjust Understated Accumulated
Depreciation

Q. Please provide the background to RUCO's adjustment.

A. The Settlement Agreement specifically states: "For ratemaking purposes and for the purposes of this Agreement, the Parties agree to a FVRB of \$142,132,013 as of October 29, 2002." The components of this FVRB resulted from an OCRB of \$117,661,030, including gross plant in service of \$219,383,559 and accumulated depreciation of \$52,018,971.

UNS states the value of the gross plant in service as of August 11, 2003 is \$248,032,644 with a corresponding level of accumulated depreciation of \$64,186,276. Thus, the Company contends the value of the plant increased \$28,649,085 between the end of the test year utilized in the Settlement Agreement (December 31, 2001) and the date of the acquisition (August 11, 2003); while the accumulated depreciation balance increased by \$12,167,305.

However, during discovery UNS was unable to provide records to substantiate the existence of \$3,133,264 that it claimed Citizens invested in plant between the end of the test year in the prior case and the effective date of the acquisition.

1 Moreover, UNS has not supported its claimed accumulated depreciation
2 balance and that balance is understated when compared to RUCO's
3 application of the authorized plant balances to the authorized depreciation
4 rates.

5

6 Q. Please continue and provide the explanation for RUCO's adjustment to
7 remove unsubstantiated pre-acquisition plant and adjust accumulated
8 depreciation.

9 A. This adjustment consists of two elements. As shown on supporting
10 Schedule RLM-4 pages 1 through 3; first, I disallowed the unsubstantiated
11 \$3,133,264 of plant additions as represented by UNS; and second, I
12 increased the level of accumulated depreciation.

13

14 Q. Please explain the first element of the adjustment to remove
15 unsubstantiated pre-acquisition plan.

16 A. In the first element I reconstructed the plant addition and retirement
17 activities as provided in the Company's response to RUCO data request
18 2.19.

19

20 The records submitted by UNS in data request 2.19 failed to account for
21 \$3,133,264 of gross plant in service that UNS has requested in this filing.

22

23

1 Thus, the Company has been unable to substantiate the existence of this
2 level of plant. Without such evidence it cannot be afforded ratemaking
3 treatment.

4
5 Q. Please explain the second element of the adjustment to increase the
6 accumulated depreciation balance.

7 A. The second element is the difference in the level of accumulated
8 depreciation as calculated by RUCO and the amount recorded by the
9 Company as of December 31, 2003. RUCO's calculation applies the
10 Commission-authorized depreciation rates to the Commission-authorized
11 plant balances from the last rate case and substantiated plant additions
12 and retirements in the current application. UNS has not supported its
13 claimed accumulated depreciation balance and that balance is
14 understated when compared to RUCO's application of the authorized
15 depreciation rates to the current supported plant balances.

16
17 Q. Please summarize RUCO's adjustment to unsubstantiated pre-acquisition
18 plant and understated accumulated depreciation.

19 A. As shown on Schedule RLM-3, column (B), this adjustment decreased the
20 starting point of the net utility plant in service for this proceeding by
21 removing \$3,133,264 in gross plant and increasing the level of
22 accumulated depreciation by \$3,857,413 for a total reduction in the OCRB
23 of \$6,990,677.

RUCO Rate Base Adjustment No. 2 – Reduce Test-Year Accumulated
Depreciation

Q. Please provide the background to RUCO's adjustment.

A. In the current case, UNS is attempting to use the depreciation rates that Citizens requested in its gas rate case (Docket No. G-01032A-02-0598); however, Citizens requested a suspension of that filing and instead filed a joint application with UNS for the sale of its assets. That joint application resulted in the Settlement Agreement.

The Settlement Agreement discussed specific terms to encompass a number of issues and was approved subject to the requirements and limitations discussed therein. However, the Settlement Agreement did not address plant depreciation rates; therefore, the Commission did not find, conclude or order a change in the depreciation rates. Thus, without a specific change being ordered by the Commission, the effective depreciation rates are those authorized by the Commission prior to this Settlement Agreement in Decision No. 58664, dated June 16, 1994.

Q. Please continue and provide the explanation for RUCO's adjustment to reduce the test-year accumulated depreciation.

A. In the Settlement Agreement, the Commission did not authorize a change in the depreciation rates it had established in Decision No. 58664. Therefore, since A.A.C. R14-2-102.C.4 states:

1 "Changed depreciation rates shall not become effective until
2 the Commission authorizes such changes."
3

4 RUCO's test-year accumulated depreciation reflects a calculation using
5 the authorized rates stated in Decision No. 58664.
6

7 This adjustment decreased the test-year OCRB by \$2,855,454.
8

9 **OPERATING INCOME**

10 Operating Income Summary

11 Q. Is RUCO recommending any changes to the Company's proposed
12 operating expenses?

13 A. Yes. The Company proposed twenty-eight adjustments to its historical
14 test-year operating income and RUCO analyzed the Company's
15 adjustments and made several additional adjustments to the operating
16 income as filed by the Company. RUCO witness Ms. Diaz Cortez
17 testimony discusses fifteen of the adjustments, while I was responsible for
18 reviewing thirteen of the adjustments the Company proposes to its test-
19 year operating income, and finally, as a result of its discovery, RUCO
20 recommends other adjustments. My review, analysis and adjustments are
21 explained below.
22
23
24

Operating Income Adjustment No.1 – Worker's Compensation

Q. Please discuss the Company's proposed worker's compensation expense adjustment.

A. The Company has converted the amount reflected in the test-year operating expenses from an accrual to a cash basis.

Q. Please explain RUCO's treatment of the Company's proposed worker's compensation expense adjustment.

A. Absent a Commission ruling, RUCO does not consider it appropriate to arbitrarily change from an accrual to a cash basis. The UNS argument that since worker's compensation is a benefit provided to former or inactive employees it should receive the same treatment as post employment benefits is hollow. The Company failed to provide documentation segregating any worker's compensation benefits that are included in post employment benefit obligations. Furthermore, workers' compensation certainly is provided to active employees for which post-retirement accounting would not be applicable.

Therefore, as shown on Schedule RLM-7, column (B), I reversed the Company's cash treatment of worker's compensation expense to an accrual basis and decreased test-year operating expenses by \$34,234.

Operating Income Adjustment No. 2 – Incentive Compensation

Q. Please provide the background for this adjustment.

A. In 2004, the Unisource Energy Corporation awarded incentive payments under the Performance Enhancement Plan ("PEP"). The PEP is only eligible for a select group of non-union employees and is paid after meeting certain performance goals, including certain financial goals.

In 2005, Unisource Energy Corporation did not meet the PEP financial goals; and therefore, no payments under the PEP program were awarded. Nevertheless, the Board of Directors authorized a Special Recognition Award to these non-union employees in recognition of their accomplishments; however, this special award was less of a payment as awarded in 2004.

The Company's adjusted test-year expense incorporates the average of the 2004 PEP bonus and the 2005 Special Recognition Award.

Q. Please continue and provide the explanation for RUCO's adjustment to the incentive compensation expenses.

A. After reviewing the Company's response to RUCO's data requests 1.14 and 6.10, it became apparent the ratepayers should not be burdened with the Board of Directors' arbitrary decision to authorize a Special Recognition Award to select UNS employees when they did not meet

1 Unisource Energy's 2005 financial performance goal. This "Special"
2 award is unique and does not meet the criteria of a typical and recurring
3 test-year expense; moreover, it rewards employees for non-performance.

4
5 RUCO does not generally vary from the strict implementation of the
6 Historical Test-Year principle to avoid mismatches in the ratemaking
7 elements. Therefore, RUCO dismisses the Company's proposal to
8 average the 2005 Special Recognition Award with the 2004 PEP program.

9
10 Further to RUCO's objection to averaging the incentive compensation
11 expenses over two years, the Company states that 60 percent of the PEP
12 bonus is directly related to financial performance and operational cost
13 containment. Stockholders are the beneficiaries of the achievement of
14 these financial components. This is particularly true between rate cases.
15 Any additional profit the Company is able to achieve between rate cases
16 accrues solely to the Company's stockholders. Accordingly, since
17 stockholders stand to gain from the achievement of the financial
18 component, stockholders should bear all of the cost of this portion of the
19 incentive compensation. These costs should not be considered for
20 inclusion in rates.

21
22 Moreover, RUCO consistently scrutinizes any incentive compensation
23 thoroughly to ensure ratepayers receive adequate benefit from the

1 expense incurred. With the majority of a customer's interfacing with the
2 Company done through the rank and file unionized employees who are
3 not eligible for any PEP compensation, the perceived incremental increase
4 in customer service generated by this incentive package would not be cost
5 beneficial to ratepayers.

6
7 Therefore, RUCO disallows the Company's special test-year
8 compensation bonus and would consider the PEP program (had it been
9 implemented in the test year) discriminatory because the benefit is
10 provided only to a subset of employees and it is of limited incremental
11 benefit to the ratepayers because the benefit is offered to a class of
12 employees that does not directly affect the service quality of customers.

13
14 As shown on Schedule RLM-7, column (C), my adjustment decreases
15 adjusted test-year expenses by \$278,748.

16
17 Operating Income Adjustment No. 3 – Depreciation Expenses

18 Q. Please explain your adjustment to reduce depreciation expenses.

19 A. The adjustment is primarily attributable to RUCO's rate base adjustment
20 No. 1, which disallowed the unsubstantiated pre-acquisition plant and to
21 rate base adjustment No. 3 disallowing construction work in progress
22 ("CWIP") from rate base.

23

1 RUCO agrees with the new set of depreciation rates that UNS is
2 proposing to implement on a going forward basis. I computed test-year
3 depreciation by multiplying RUCO's level of test-year gross plant in
4 service by the Company's proposed depreciation rates.

5
6 As shown on Schedule RLM-7, column (D) and supporting Schedule RLM-
7 8, my adjustment decreases adjusted test-year expenses by \$324,083.

8
9 Operating Income Adjustment No. 4 – Postage Expense

10 Q. Please explain your adjustment to reduce the postage expenses.

11 A. My adjustment consists of two elements. First, I annualized the test-year
12 postage expense to match RUCO's annualized customer count.

13
14 Second, I increased the expense to recognize the change in postal rates,
15 effective January 2006.

16
17 As shown on Schedule RLM-7, column (E) and supporting Schedule RLM-
18 9, my adjustment decreases adjusted test-year expenses by \$153,479.

19
20
21
22
23

1 Operating Income Adjustment No. 5 – Customer Service Cost Allocations

2 Q. Please provide the background for this adjustment.

3 A. Prior to May 1, 2005, the Call Center duties for UNS Gas were performed
4 in-house by six UNS Gas Customer Service Representatives at a cost of
5 approximately \$17,636 per month for those four months.

6

7 After May 1, 2005, Unisource Energy consolidated the call center
8 operations of UNS Gas, UNS Electric and TEP at an actual allocated cost
9 to UNS Gas of \$76,227 per month for those eight months, a 432 percent
10 increase in cost.

11

12 Therefore, because of such a dramatic increase in costs for approximately
13 the same service, RUCO does not agree with the Company's adjustment
14 to allocate to UNS Gas a portion of the integrated call center and
15 customer service functions which serves UNS Gas, UNS Electric and
16 TEP.

17

18 Q. Please continue and provide an explanation for RUCO's adjustment to the
19 allocated customer service costs.

20 A. In the Company's response to RUCO data request 6.13, UNS indicates
21 that similar duties were initially provided by in-house customer service
22 representatives at a much less cost.

23

1 RUCO is disallowing this imprudent expenditure which quadruples the
2 annual cost for the provisioning of customer services simply because
3 Unisource Energy choose to integrate similar job functions among its
4 affiliates.

5
6 I determined the appropriate level of customer service costs from data
7 provided by the Company, in which UNS stated actual customer service
8 costs for the first four months of the test year (before integration) were
9 \$70,543.

10
11 I calculated the reasonable level of test-year customer service costs by
12 annualizing the four-months of in-house actual costs to \$211,629.

13
14 As shown on Schedule RLM-7, column (F) and supporting Schedule RLM-
15 10, this adjustment decreased test-year expenses by \$726,710.

Operating Income Adjustment No. 6 – Disallowance of Inappropriate
and/or Unnecessary Expenses

Q. Please explain your analysis of the various operating expense accounts that result in your removal of inappropriate or unnecessary costs for the provisioning of gas service.

A After review of all the journal entries in various FERC accounts and the Company's response to a number of RUCO data requests, I determined there were numerous expenditures that were either questionable, inappropriate and/or unnecessary.

Therefore, as shown on Schedule RLM-11 and supporting workpapers attached, I have made an adjustment to remove test-year expenses related to payments to chambers of commerce, non-profit organizations, donations, club memberships, gifts, awards, extravagant corporate events, advertising and for various meals, lodging and refreshments, which are not necessary in the provisioning of gas service. The back-up documentation denoting each individual expense removed is recorded in my Workpaper Schedules: WP RLM-11-880, pages 1 to 4, WP RLM-11-921, pages 1 to 16, WP RLM-11-923, pages 1 and 2, WP RLM-11-926, page 1 and WP RLM-11-930, pages 1 to 5.

A sampling within the 1,995 questionable expenses submitted by RUCO includes invoices for: 1) \$1,200.00 for two people to play in Flagstaff's 8th

1 Annual Golf Tournament; 2) \$5,750.00 for an employee appreciation
2 dinner in Prescott; 3) \$1,000.00 for Toys for Tots; 4) \$3,058.00 to the
3 Flagstaff Chamber of Commerce, and 5) \$1,246 for a chartered air flight.

4
5 RUCO expressed its concerns about the specific
6 inappropriate/unnecessary expenditures and provided a copy of all
7 questionable expenses to the Company in RUCO Data Request 4.01.

8 However, UNS in its response stated:

9 "UNS Gas has established practices, policies, procedures
10 and internal controls in place to assure that expenses
11 recorded in the identified FERC accounts are materially
12 correct, prudent and properly classified. Implicit in that
13 classification is the affirmation (belief of the Company) that
14 the charges within those FERC accounts were incurred in
15 the course of providing service to the gas customers in the
16 period recorded."
17

18 The burden of proof is on the Company to substantiate the
19 appropriateness of journal entries identified. The Company's mere avowal
20 that the expenditures are prudent and necessary to provide gas service is
21 not sufficient to satisfy that burden.

22
23 As shown on Schedule RLM-7, column (G), this adjustment decreased
24 test-year expenses by \$233,347.

25
26
27

1 Operating Income Adjustment No. 7 – Property Tax

2 Q. Do you agree with UNS's methodology for computing gas utility property
3 taxes?

4 A. Yes. I have used the same methodology to compute RUCO's
5 recommended level of property taxes.

6

7 The difference in the amount I have calculated versus the Company is a
8 result of our respective levels of recommended net plant in service and
9 RUCO's use of the assessment ratio of 24 percent that will be effective
10 when the authorized rates in this case become effective.

11

12 The decreasing assessment ratios as authorized in the Arizona Revised
13 Statutes relating to property taxes states the effective rate from December
14 31, 2006 through December 31, 2007 to be 24 percent. The assessment
15 ratio will continue to decline by one-half percent each year until it reaches
16 20 percent on December 31, 2014.

17

18 As shown on Schedule RLM-7, column (H) and supporting Schedule RLM-
19 12, this adjustment decreased test-year expenses by \$309,309.

20

21

22

23

1 Operating Income Adjustment No. 8 – Rate Case Expense

2 Q. Please explain your review of the Company's proposed rate case
3 expenses.

4 A. Through the Company's responses to RUCO data requests 1.06, 6.11,
5 7.02 and Staff data requests 11.6 and 11.7, I have obtained a budget and
6 copies of rate case billings to date, the total amount actually incurred in
7 the instant case is not yet known. These documents showed a budgeted
8 amount of \$600,000 and an actual amount incurred through November 30,
9 2006 of \$1,742,023.

10

11 RUCO has a concern over the reasonableness of such a large financial
12 burden to the ratepayers from this requested adjustment. In comparison,
13 Southwest Gas Corporation ("SWG") filed a rate application in 2004 with a
14 requested and approved \$235,000 in rate case expenses. The instant
15 case has very similar characteristics to the SWG filing, with the majority of
16 each application process being performed by in-house staff and both
17 utilities requesting a fundamental shift in the ratemaking principles of de-
18 coupling revenue from customer usage and extensive revisions to the
19 PGA mechanism.

20

21 Moreover, UNS was able to refine its recommendations based on
22 information cited in the Decision from SWG's groundbreaking application.

23

1 Nevertheless, UNS made no attempt to reconcile more than a two-fold
2 increase in rate case expenses for processing a comparable filing to
3 SWG's application. Thus, the appropriate level of rate case expense
4 RUCO is recommending is \$235,000 as authorized SWG in Decision No.
5 68487, dated February 23, 2006, then adjusted for inflation to \$251,000.

6
7 Therefore, this adjustment reduces annual rate case expense from the
8 Company's proposed level of \$200,000 ($\$600,000 / 3$ years) to RUCO's
9 recommended level of \$83,667 ($\$251,000 / 3$ years).

10
11 As shown on Schedule RLM-7, Column (I), this adjustment decreased
12 test-year expenses by \$116,333.

13
14 Operating Income Adjustment No. 9 – American Gas Association Dues

15 Q. During the test year did the Company pay dues to the American Gas
16 Association ("AGA")?

17 A. Yes. UNS paid \$41,854 for its membership with the AGA during the test
18 year.

19
20
21
22
23

1 Q. Has RUCO proposed an adjustment to remove a portion of the AGA dues
2 paid during the test year from cost of service?

3 A. Yes. RUCO's adjustment represents the portion of UNS's dues that the
4 AGA devoted to marketing and lobbying to promoting the use of gas.

5

6 Q. How did you identify the activities of the AGA?

7 A. As shown on RUCO Exhibit A, pages 1 and 2, the National Association of
8 Regulatory Utility Commissioners ("NARUC") perform an audit of the 2003
9 expenditures of the AGA. The NARUC audit report identifies each
10 category of AGA expenditures and the percentage of the AGA's annual
11 expenditures that were devoted to each category during the audit year.

12

13 Q. Why should these categories of expenditures of the AGA be excluded
14 from rates?

15 A. The marketing category represents costs to promote gas usage over other
16 alternatives, which the Commission has previously rejected as not being
17 an expenditure that is the best interests of the consumer.

18

19

20

21

22

23

1 Q. What was the Commission's rationale in disallowing these costs?

2 A. The Commission stated the following in Decision No. 57075, dated August

3 31, 1990 at page 54-55, regarding the rationale for its disallowances:

4 Applicant's sales program is, without question, almost
5 entirely motivated by the Company's perception of its
6 competitive position vis-à-vis electric utilities for new
7 and existing customers. This competition between
8 energy providers requires us to evaluate the
9 reasonableness and cost effectiveness of each
10 competitor's marketing and advertising efforts in order
11 to ensure that the ratepayers are not being forced to
12 fund both sides of an escalating competition, without
13 limitation and without realizing any discernible
14 benefits in return.
15

16 Q. Who realizes the initial benefit from any increases in load resulting from
17 these sales and marketing activities?

18 A. Any additional margin realized through these sales and marketing efforts
19 accrues to shareholders between rate cases. Until such additional load is
20 recognized in rates, the only beneficiary is the stockholder.
21

22 Q. Should ratepayers be required to bear the entire cost of these sales,
23 marketing, and promotional activities?

24 A. No. The Commission has already recognized that these type of costs
25 need to be contained. It has also recognized that ratepayers should not
26 be forced to fund an escalating competition between the electric and gas
27 industry. Furthermore, initially any increased sales arising out of these
28 marketing efforts accrue solely to shareholders. Accordingly, ratepayers

1 should not be required to fund the portion of AGA dues that pay for gas
2 industry marketing and promotional activities.

3
4 The category of lobbying expenses should be excluded because it is
5 utilized to represent the legislative interests of gas company stockholders.
6 Further, lobbying expenses are typically reflected as below-the-line
7 expenditures and not included in rates.

8
9 Q. What adjustment have you made?

10 A. As shown on the AGA/NARUC Oversight Committee report, the
11 percentage of dues allocated to marketing was 1.54 percent; while the
12 AGA incurred lobbying expenses of 2.10 percent of total member dues.
13 Therefore, I have removed 3.64 percent of the Company's test year AGA
14 dues. This represents the percentage of the AGA's expenditures that was
15 used for marketing gas and legislative lobbying. This adjustment reduces
16 operating expenses by $\$41,854 \times 3.64 \% = \$1,523$.

17
18 As shown on Schedule RLM-7, column (J), this adjustment decreased
19 test-year expenses by \$1,523.

Adjustments To Operating Expenses No. 10 – Non-Recurring/Atypical Expenses

Q. Please explain the basis for the adjustments you made to disallow non-recurring and/or atypical operating expenses.

A. Through discovery I reviewed and analyzed a sampling of test-year operating expense source documents. This review culminated in RUCO data request 4.01. In the Company's response to this data request was documentation indicating expenditures for "Union Training". After a further conversation with the Company there was agreement that this is not a recurring or typical test-year expense.

Therefore as shown on Schedule RLM-7, column (K) and supporting Schedule RLM-13, this adjustment decreased test-year expenses by \$2,584.

Adjustments To Operating Expenses No. 11 – Supplemental Executive Retirement Plan

Q. Please explain the basis for the adjustment you made to the Pension and Benefits operating expenses.

A. I made an adjustment to the Supplemental Executive Retirement Plan ("SERP") portion of the pension and benefits operating expenses.

1 Q. Please explain your adjustment to the SERP.

2 A. As explained in the Company's response to Staff data request 5.72. a and
3 b, UNS's test-year payroll loadings include the cost of a SERP. The
4 Company's test-year operating expenses include \$93,075 related to the
5 SERP. The SERP is a retirement plan that is provided to a small select
6 group of high-ranking officers of the Company. The high-ranking officers
7 who are covered under the SERP receive these benefits in addition to the
8 regular retirement plan.

9

10 Q. Should ratepayers be required to pay the cost of supplemental benefits for
11 the high-ranking officers of the Company?

12 A. No. The cost of supplemental benefits for high-ranking officers is not a
13 necessary cost of providing gas service. These individuals are already
14 fairly compensated for their work and are provided with a wide array of
15 benefits including a medical plan, dental plan, life insurance, long term
16 disability, paid absence time, and a retirement plan. If the Company feels
17 it is necessary to provide additional perks to a select group of employees it
18 should do so at its own expense.

19

20 Q. In a recent ACC Decision did the Commissioners determine whether
21 SERP expenses were recoverable?

22 A. Yes. In SWG's latest rate case (Decision No. 68487, dated February 23,
23 2006) the Commission agreed with RUCO that SERP should be excluded

1 from operating expenses and it is not reasonable to place this additional
2 burden on ratepayers. Therefore, I have removed the test-year cost of the
3 SERP from operating expenses.

4
5 As shown on Schedule RLM-7, column (L), this adjustment decreased
6 test-year expenses by \$93,075.

7
8 Operating Income Adjustment No. 22 – Income Tax Expense – This
9 adjustment reflects income tax expenses calculated on RUCO's
10 recommended revenues and expenses.

11
12 As shown on Schedule RLM-7, column (W) and supporting Schedule
13 RLM-14, this adjustment increased test-year expenses by \$1,830,390.

14
15 **RATE DESIGN**

16 Q. Please explain your contribution to RUCO's recommended rate designs.

17 A. As shown on Schedule RLM-15, I was responsible for producing an
18 accurate set of bill determinants (i.e. test-year customer bill counts and
19 therms consumed). I adjusted the bill determinants to reflect the
20 annualized customer count as calculated by Ms. Diaz Cortez in her
21 workpapers. I made adjustments to remove the Company's proposed
22 "Summer/Winter" basic service charge differential. However, I maintained
23 the same percentage of revenue contribution from each class of service

1 as is provided in the Company's current rates. An in-depth discussion of
2 RUCO's proposed rate design is contained in the testimony of Ms. Diaz
3 Cortez. In summary, for residential customers, RUCO proposes a single
4 basic service charge (not season differentiated) of \$8.13 and a commodity
5 based charge of \$0.2892 per therm.

6
7 Q. Please explain elements of the rate design.

8 A. Schedule RLM-15 illustrates the elements proposed by Ms. Diaz Cortez in
9 her testimony, which are:

- 10 1. Provides a positive price signal to encourage energy efficient
11 usage;
- 12 2. Consistent with the Cost of Service Study parameters, which
13 established UNS's present rate design;
- 14 3. Recognition of the Company's need for revenue stabilization within
15 the ratemaking principle of gradualism;
- 16 4. Shift 10 percent of the revenue requirement that is currently
17 recovered from the commodity rates to the fixed monthly charges;
18 and
- 19 5. Eliminate the Company-proposed summer and winter rate structure
20 differential.

PROOF OF RECOMMENDED REVENUE

Q. Have you prepared a Schedule presenting proof of your recommended revenue?

A. Yes, I have. Proof that RUCO's recommended rate designs will produce the recommended required revenue as illustrated, is presented on Schedule RLM-15.

TYPICAL BILL ANALYSIS

Q. Have you prepared a Schedule representing the financial impact of RUCO's recommended rate design on the typical residential customer?

A. Yes, I have. A typical bill analysis for metered residential customers with various levels of usage is presented on Schedule RLM-16.

Q. Please provide an excerpt of RUCO's rate structure that illustrates RUCO's rate design goals as set forth in Ms. Diaz Cortez's testimony captures these fundamental changes in UNS's current rate design.

A. Schedule RLM-16 provides an extensive breakdown of the effects of RUCO's proposed rates on the R-10 Residential Customer. Below is a chart gleaned from Schedule RLM-16 comparing UNS's proposed rates to RUCO's proposed annual rates:

UNS Proposed Rates and Charges

Basic Monthly Service Charge	\$20.00/Summer & \$11.00/Winter
Commodity Charges (per Therm)	\$0.18625

1 RUCO Proposed Rates and Charges

2	Basic Monthly Service Charge	\$8.13
---	------------------------------	--------

3	Commodity Charges (per Therm)	\$0.2862
---	-------------------------------	----------

5 RUCO's proposed rate design when compared to the Company's
6 proposal:

1. Provides a clear price signal (\$0.10 more per every therm used) that increased consumption will increase your monthly bill and reduced consumption will lower your monthly bill throughout the entire year in effort to promote conservation;
2. Maintains the same historical percentage (70 percent Residential vs. 30 percent Other) of revenue recovery among classes of service in recognition of the Company's Cost of Service Study; and
3. Shifts a significant amount (10 percent more than test year) of the revenue requirement from the variable commodity charge to the fixed basic service in recognition of the Company's concern over revenue stabilization.

9 COST OF CAPITAL

Q. Is RUCO proposing any adjustments to the Company proposed cost of capital?

A. Yes, it is. As shown on Schedule RLM-17, this adjustment decreases the Company's cost of common equity and therefore its weighted cost of capital by 86 basis points from 8.80 to 7.94 percent to reflect current

1 market conditions. This adjustment is fully explained in the testimony of
2 RUCO witness Mr. Rigsby.

3

4 Q. Does this conclude your direct testimony?

5 A. Yes, it does.

APPENDIX 1

APPENDIX 1

Qualifications of Rodney Lane Moore

EDUCATION: Athabasca University
Bachelor's Degree in Business Administration - 1993

EXPERIENCE: Public Utilities Analyst V
Residential Utility Consumer Office
Phoenix, Arizona 85007
May 2001 - Present

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

Auditor
Arizona Corporation Commission
Phoenix, Arizona 85007
October 1999 - May 2001

My duties include review and analysis of financial records and other documents of regulated utilities for accuracy, completeness, and reasonableness. I am also responsible for the preparation of work papers and Schedules resulting in testimony and/or reports regarding utility applications for increase in rates, financings, and other matters. Extensive use of Microsoft Excel and Word, spreadsheet modeling and financial statement analysis.

RESUME OF RATE CASE AND REGULATORY PARTICIPATION

<u>Utility Company</u>	<u>Docket No.</u>
Rio Verde Utilities, Inc	WS-02156A-00-0321
Black Mountain Gas Company	G-03703A-01-0283
Green Valley Water Company	W-02025A-01-0559
New River Utility Company	W-01737A-01-0662

Dragoon Water Company	W-01917A-01-0851
Roosevelt Lake Resort, Inc.	W-01958A-02-0283
Southwest Gas Company	G-01551A-02-0425
Arizona-American Water Company	W-01303A-02-0867 et al
Rio Rico Utilities, Inc.	WS-02676A-03-0434
Qwest Corporation	T-01051B-03-0454
Chaparral City Water Company	W-02113A-04-0616
Southwest Gas Company	G-01551A-04-0876
Arizona-American Water Company	W-01303A-05-0405
Far West Water and Sewer Company	WS-03478A-05-0801
Gold Canyon Sewer Company	SW-02519A-06-0015

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RLM-4	1 TO 5	RATE BASE ADJUSTMENT NO. 2 - TEST-YEAR ACCUMULATED DEPRECIATION
MDC-1	1	RATE BASE ADJUSTMENT NO. 3 - ACQUISITION ADJUSTMENT
RLM-5	1	RATE BASE ADJUSTMENT NO. 4 - REMOVE CWIP FROM TEST-YEAR RATE BASE
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TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 2 - INCENTIVE COMPENSATION
RLM-8	1	OPERATING INCOME ADJUSTMENT NO. 3 - DEPRECIATION & AMORTIZATION EXPENSE ANNUALIZATION
RLM-9	1	OPERATING INCOME ADJUSTMENT NO. 4 - POSTAGE EXPENSE
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RLM-11	1	OPERATING INCOME ADJUSTMENT NO. 6 - REMOVAL OF INAPPROPRIATE/UNNECESSARY EXPENSES
RLM-12	1	OPERATING INCOME ADJUSTMENT NO. 7 - PROPERTY TAX
TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 8 - RATE CASE EXPENSE
TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 9 - AGA DUES
RLM-13	1	OPERATING INCOME ADJUSTMENT NO. 10- REMOVAL OF NON-RECURRING/ATYPICAL EXPENSES
TESTIMONY, RLM		OPERATING INCOME ADJUSTMENT NO. 11- SERP
TESTIMONY, MDC		OPERATING INCOME ADJUSTMENT NO. 12- AMORTIZATION ON GIS EXPENDITURES
MDC-3	1	OPERATING INCOME ADJUSTMENT NO. 13- FLEET FUEL EXPENSE
MDC-4	1 TO 8	OPERATING INCOME ADJUSTMENT NO. 14- CUSTOMER ANNUALIZATION
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MDC-5	1	OPERATING INCOME ADJUSTMENT NO. 17- BAD DEBT - UNCOLLECTIBLES
TESTIMONY, MDC		OPERATING INCOME ADJUSTMENT NO. 18- CWIP PROPERTY TAXES
MDC-6	1	OPERATING INCOME ADJUSTMENT NO. 19- OUT OF PERIOD EXPENSES
MDC-7	1	OPERATING INCOME ADJUSTMENT NO. 20- LEGAL FEES
		OPERATING INCOME ADJUSTMENT NO. 21- LEFT BLANK
RLM-14		OPERATING INCOME ADJUSTMENT NO. 22- INCOME TAX
RLM-15	1	RATE DESIGN AND PROOF OF RECOMMENDED REVENUE
RLM-16	1	TYPICAL BILL ANALYSIS
RLM-17	1	COST OF CAPITAL

REVENUE REQUIREMENT

LINE NO.	DESCRIPTION	(A) COMPANY ORIGINAL COST		(B) COMPANY RCND		(C) COMPANY FAIR VALUE		(D) RUCO ORIGINAL COST		(E) RUCO RCND		(F) RUCO FAIR VALUE	
1	Adjusted Rate Base	\$	161,661,362	\$	220,694,068	\$	191,177,714	\$	144,680,196	\$	197,766,154	\$	171,223,175
2	Adjusted Operating Income (Loss)	\$	8,428,981	\$	8,428,981	\$	8,428,981	\$	10,560,998	\$	10,560,998	\$	10,560,998
3	Current Rate Of Return (Line 2 / Line 1)		5.21%		3.82%		4.41%		7.30%		5.34%		6.17%
4	Required Operating Income (Line 5 X Line 1)	\$	14,223,179	\$	14,223,179	\$	14,204,479	\$	11,480,374	\$	11,480,374	\$	11,480,374
5	Required Rate Of Return		8.80%		6.44%		7.43%		7.94%		5.81%		6.70%
6	Operating Income Deficiency (Line 4 - Line 2)	\$	5,794,198	\$	5,794,198	\$	5,775,498	\$	919,376	\$	919,376	\$	919,376
7	Gross Revenue Conversion Factor (Schedule RLM-1, Page 3)		1.6649		1.6649		1.6649						1.6370
8	Increase In Gross Revenue Requirement (Line 7 X Line 6)	\$	9,646,901	\$	9,646,901	\$	9,615,767	\$		\$		\$	1,505,003
9	Adjusted Test Year Revenue												
10	Proposed Annual Revenue Requirement (Line 8 + Line 9)												
11	Required Percentage Increase In Revenue (Line 8 / Line 9)												
12	Rate Of Return On Common Equity												

References:

Columns (A) Thru (C): Company Schedule A-1, C-1 And D-1
Column (D): Schedules RLM-2, RLM-3, RLM-6 And RLM-17
Column (E): Schedule RLM-2
Column (F): Average Of Column (D) + Column (E)

GROSS REVENUE CONVERSION FACTOR

LINE NO.	DESCRIPTION	REFERENCE	(A)
CALCULATION OF GROSS REVENUE CONVERSION FACTOR:			
1	Revenue		1.0000
2	Less: Uncollectibles	Company Schedule C-3, Line 2	0.0051
3	Subtotal	Line 1 - Line 2	0.9949
4	Less: Combined Federal And State Tax Rate	Line 14	0.3840
5	Subtotal	Line 3 - Line 4	0.6109
6	Revenue Conversion Factor	Line 1 / Line 5	1.6370
CALCULATION OF EFFECTIVE TAX RATE:			
7	Arizona Taxable Income		1.0000
8	Arizona State Income Tax Rate		0.0697
9	Federal Taxable Income	Line 7 - Line 8	0.9303
10	Applicable Federal Income Tax Rate		0.3400
11	Effective Federal Income Tax Rate	Line 9 X Line 10	0.3163
12	Subtotal	Line 8 + Line 11	0.3860
13	Revenue Less Uncollectibles	Line 3	0.9949
14	Combined Federal And State Income Tax Rate	Line 12 X Line 13	0.3840

FAIR VALUE RATE BASE - OCRB / RCND (50/50 SPLIT)

LINE NO.	DESCRIPTION	(A) COMPANY OCRB	(B) COMPANY RCND	(C) COMPANY FVRB	(D) OCRB/RCND % DIFF.	(E) RUCO OCRB	(F) RUCO RCND	(G) RUCO FVRB
1	Gross Utility Plant In Service	\$ 279,169,694	\$ 374,243,421	\$ 326,706,558	134.06%	\$ 268,847,200	\$ 360,405,510	\$ 314,626,355
2	Accumulated Depreciation	(72,006,708)	(97,114,865)	(84,560,787)	134.87%	(78,719,575)	(106,168,455)	(92,444,015)
3	Net Utility Plant In Service	\$ 207,162,986	\$ 277,128,556	\$ 242,145,771		\$ 190,127,625	\$ 254,237,055	\$ 222,182,340
4	Citizens Acquisition Discount	\$ (30,709,738)	\$ (41,822,562)	\$ (36,266,150)	136.19%	\$ (30,709,738)	\$ (41,822,562)	\$ (36,266,150)
5	Accumulated Amortization	1,876,981	2,560,308	2,218,645	136.41%	1,628,094	2,220,812	1,924,453
6	Net Citizens Acq. Disc.	\$ (28,832,757)	\$ (39,262,254)	\$ (34,047,506)		\$ (29,081,644)	\$ (39,601,750)	\$ (34,341,697)
7	Total Net Utility Plant	\$ 178,330,229	\$ 237,866,302	\$ 208,098,266		\$ 161,045,981	\$ 214,635,305	\$ 187,840,643
Deductions:								
8	Cust. Advances For Const.	\$ (7,283,595)	\$ (7,786,962)	\$ (7,535,279)	106.91%	\$ (7,283,595)	\$ (7,786,962)	\$ (7,535,279)
9	Customer Deposits	(3,040,484)	(3,040,484)	(3,040,484)	100.00%	(3,040,484)	(3,040,484)	(3,040,484)
10	Acc. Deferred Income Taxes	(6,484,809)	(6,484,809)	(6,484,809)	100.00%	(6,484,809)	(6,484,809)	(6,484,809)
11	Total Deductions	\$ (16,808,888)	\$ (17,312,255)	\$ (17,060,572)		\$ (16,808,888)	\$ (17,312,255)	\$ (17,060,572)
12	Allowance - Working Capital	\$ (1,045,146)	\$ (1,045,146)	\$ (1,045,146)	100.00%	\$ 155,006	\$ 155,006	\$ 155,006
13	Regulatory Assets	\$ 1,204,887	\$ 1,204,887	\$ 1,204,887	100.00%	\$ 307,819	\$ 307,819	\$ 307,819
14	Regulatory Liability	\$ (19,721)	\$ (19,721)	\$ (19,721)	100.00%	\$ (19,721)	\$ (19,721)	\$ (19,721)
15	TOTAL TEST YEAR RATE BASE	\$ 161,661,361	\$ 220,694,067	\$ 191,177,714		\$ 144,680,196	\$ 197,766,154	\$ 171,223,175

References:

Columns (A) (B) (C): Company Schedule B-1
Column (D): Column (B) / Column (A)
Column (E): Schedule RLM-3, Column (H)
Column (F): Column (D) X Column (E)
Column (G): Average Of Column (E) + Column (F)

SUMMARY OF ORIGINAL COST RATE BASE

LINE NO.	DESCRIPTION	(A) COMPANY FILED AS OCRB	(B) RUCO ADJUSTMENT NO. 1	(C) RUCO ADJUSTMENT NO. 2	(D) RUCO ADJUSTMENT NO. 3	(E) RUCO ADJUSTMENT NO. 4	(F) RUCO ADJUSTMENT NO. 5	(G) RUCO ADJUSTMENT NO. 6	(H) RUCO ADJUSTED AS OCRB
1	Gross Utility Plant In Service	\$ 279,169,694	\$ (3,133,264)	\$ -	\$ -	\$ (7,189,230)	\$ -	\$ -	\$ 268,847,200
2	Accumulated Depreciation	(72,006,708)	(3,857,413)	(2,855,454)	-	-	-	-	(78,719,575)
3	Net Utility Plant In Service	\$ 207,162,986	\$ (6,990,677)	\$ (2,855,454)	\$ -	\$ (7,189,230)	\$ -	\$ -	\$ 190,127,625
4	Citizens Acquisition Discount	\$ (30,709,738)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (30,709,738)
5	Accumulated Amortization	1,876,981	-	-	(248,887)	-	-	-	1,628,094
6	Net Citizens Acq. Disc.	\$ (28,832,757)	\$ -	\$ -	\$ (248,887)	\$ -	\$ -	\$ -	\$ (29,081,644)
7	Total Net Utility Plant	\$ 178,330,229	\$ (6,990,677)	\$ (2,855,454)	\$ (248,887)	\$ (7,189,230)	\$ -	\$ -	\$ 161,045,981
Deductions:									
8	Cust. Advances For Const.	\$ (7,283,595)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (7,283,595)
9	Customer Deposits	(3,040,484)	-	-	-	-	-	-	(3,040,484)
10	Acc. Deferred Income Taxes	(6,484,809)	-	-	-	-	-	-	(6,484,809)
11	Total Deductions	\$ (16,808,888)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (16,808,888)
12	Allowance - Working Capital	\$ (1,045,146)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,200,152	\$ 155,006
13	Regulatory Assets	\$ 1,204,887	\$ -	\$ -	\$ -	\$ -	\$ (897,068)	\$ -	\$ 307,819
14	Regulatory Liability	\$ (19,721)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (19,721)
15	TOTAL OCRB	\$ 161,661,361	\$ (6,990,677)	\$ (2,855,454)	\$ (248,887)	\$ (7,189,230)	\$ (897,068)	\$ 1,200,152	\$ 144,680,196

References:

Column (A): - Company Schedule B-2
Column (B): - Adjustment No. 1 - RUCO Adjustment To Pre-Acquisition Gross Plant And Accumulated Depreciation (See RLM-4, Page 3, Lines 38 & 39)
Column (C): - Adjustment No. 2 - RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-4, Page 5, Line 40)
Column (D): - Adjustment No. 3 - RUCO Adjustment To Restate Accumulated Amortization On Citizens Acquisition. (See MDC-1)
Column (E): - Adjustment No. 4 - RUCO Adjustment To Remove CWIP From Test-Year Rate Base (See Testimony, MDC And RLM-5, Line 39)
Column (F): - Adjustment No. 5 - RUCO Adjustment To The Geographical Information System (See Testimony, MDC)
Column (G): - Adjustment No. 6 - Allowance For Working Capital (See MDC-2)
Column (H): - Sum Of Columns (A) Through (G)

TEST YEAR PLANT SCHEDULES
PRIOR TEST YEAR ENDED OCTOBER 29, 2002

LINE NO.	ACCT NO.	DESCRIPTION	(A) DEP. RATES AS FILING	(B) DEP. RATES PER \$6664	(C) PROPOSED RATES	(D) TOTAL PLANT PRIOR SETTLEMENT	(E) ACC. DEP. SETTLEMENT	(F) PLANT VALUE	(G) ACC ADJUSTMENT TO PLANT	(H) ACC ADJUSTMENT TO ACC. DEP.	(I) PER BOOKS ADJUSTED PRIOR TY PLT	(J) PER BOOKS ADJUSTED PRIOR ACC. DEP.
1	302	Intangible:										
2	303	Franchises & Consents	3.95%	4.00%	3.95%	\$ 371,375	\$ (137,681)	\$ 233,694	\$ -	\$ -	\$ 371,375	\$ (137,681)
3		Miscellaneous Intangible	5.84%	4.00%	5.84%	251,616	(151,955)	99,661	-	-	251,616	(151,955)
		Total Intangible Plant				\$ 622,991	\$ (289,636)	\$ 333,355	\$ -	\$ -	\$ 622,991	\$ (289,636)
4	365	Transmission:										
5	366	Land & Rights	-	-	1.38%	\$ 105,203	\$ 5	\$ 105,208	\$ (33,897)	\$ -	\$ 71,306	\$ 5
6	367	Structures & Improvements	7.27%	3.10%	1.55%	-	(5)	(5)	1,334	(1,329)	1,334	(1,334)
7	369	Mains	1.57%	2.57%	1.53%	11,080,124	(2,671,397)	8,408,727	2,900,215	84,706	13,980,339	(2,586,691)
8	371	Measuring And Reg. Equipment	1.61%	3.32%	1.54%	866,069	(270,221)	585,848	2,361,825	(88,596)	3,217,894	(358,817)
		Other Equipment	5.00%	3.64%	2.49%	-	(7,910)	(7,910)	183,581	-	183,581	(7,910)
		Total Transmission Plant				\$ 12,041,396	\$ (2,949,528)	\$ 9,091,868	\$ 5,413,058	\$ (5,219)	\$ 17,454,454	\$ (2,954,747)
9		Distribution:										
10	374	Land & Rights	-	-	0.93%	\$ 134,581	\$ -	\$ 134,581	\$ -	\$ -	\$ 134,581	\$ -
11	375	Structures & Improvements	1.77%	3.35%	1.93%	8,247	(10,949)	(2,702)	1,366	3,123	9,613	(7,826)
12	376	Mains	2.08%	2.92%	2.07%	120,601,071	(21,816,051)	98,785,020	1,531,339	(83,498)	122,132,410	(21,899,549)
13	378	Meas. And Reg. Equip. - General	3.03%	5.73%	2.97%	1,813,831	(639,150)	1,174,681	62,880	(70,876)	1,876,511	(710,026)
14	379	Meas. And Reg. Equip. - City Gate	2.39%	5.52%	2.36%	1,719,751	(524,902)	1,194,849	247,482	(211,561)	1,967,233	(736,463)
15	380	Services	2.85%	4.75%	2.82%	49,751,369	(14,212,476)	35,538,893	830,520	(801,890)	50,581,889	(15,014,366)
16	381	Meters	2.05%	2.86%	2.02%	9,704,378	(3,838,309)	5,866,069	5,168	(50)	9,709,546	(3,838,359)
17	382	Meter Installation	2.42%	2.86%	2.36%	4,516,786	(465,155)	4,051,631	2,716	(234)	4,519,502	(465,389)
18	383	Regulators	2.63%	3.77%	2.56%	1,850,661	(785,543)	1,065,138	589,255	(587,980)	2,439,936	(1,373,523)
19	384	Regulator Installation	2.83%	3.77%	2.80%	284,404	(11,353)	273,051	257	(89)	284,661	(11,442)
20	385	Industrial Measuring Equipment	2.61%	3.82%	2.70%	785,500	(473,598)	311,902	90,723	(76,767)	876,223	(550,365)
21	387	Other Equipment	3.15%	3.64%	3.01%	724,235	(172,911)	551,324	677	(245)	724,912	(173,156)
		Total Distribution Plant				\$ 191,894,834	\$ (42,950,397)	\$ 148,944,437	\$ 3,362,183	\$ (1,830,067)	\$ 195,257,017	\$ (44,780,464)
22		General:										
23	389	Land & Rights	-	-	4.93%	\$ 194,035	\$ -	\$ 194,035	\$ 496,357	\$ 5,618	\$ 690,392	\$ 5,618
24	390	Structures & Improvements	3.75%	3.10%	4.89%	813,839	(187,270)	626,569	3,886,835	(545,882)	4,700,674	(733,152)
25	391	Office Furniture & Equipment	4.24%	4.82%	4.24%	8,083,824	(3,734,401)	4,349,423	627,732	(296,743)	8,711,556	(4,031,144)
26	392	Transportation Equipment	25.00%	0.00%	14.71%	2,528,039	(1,177,129)	1,350,910	138,927	(138,927)	2,666,966	(1,316,056)
27	393	Stores Equipment	3.03%	2.27%	3.03%	100,288	(13,725)	86,563	12,745	(12,745)	113,033	(26,470)
28	394	Tools, Shop And Garage Equip.	3.64%	5.76%	3.64%	1,411,184	(242,205)	1,168,979	341,273	(341,273)	1,752,457	(583,478)
29	395	Laboratory Equipment	9.29%	5.76%	9.29%	529,231	(78,858)	450,373	26,957	(26,957)	556,188	(105,815)
30	396	Power Operated Equipment	5.69%	24.60%	10.49%	362,259	(294,956)	67,303	25,801	(25,801)	387,860	(320,557)
31	397	Communication Equipment	6.11%	4.93%	6.11%	540,119	(38,368)	501,731	376,420	(102,703)	916,539	(141,091)
32	398	Miscellaneous Equipment	4.01%	5.43%	4.01%	261,520	(41,165)	220,355	11,374	(11,374)	272,894	(52,539)
33	399	Other Tangible Property	0.00%	3.64%	-	-	(21,313)	(21,313)	100,108	-	100,108	(21,313)
		Total General Plant				\$ 14,824,338	\$ (5,829,410)	\$ 8,994,928	\$ 6,044,329	\$ (1,496,587)	\$ 20,868,667	\$ (7,325,987)
34												
35		TOTAL PLANT				\$ 219,383,559	\$ (52,018,971)	\$ 167,364,588	\$ 14,819,570	\$ (3,331,873)	\$ 234,203,129	\$ (55,350,844)

References:

Columns (A) (B) (C) (D) (E) (F): Prior Rate Case And Company Response To RUCO Data Requests 1.08 & 2.19
Columns (G) (H): Company Response To RUCO Data Requests 1.08 & 2.19
Column (I): Column (D) + Column (G)
Column (J): Column (E) + Column (H)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2002

LINE NO.	ACCT NO.	ACCOUNT NAME	(A) PLANT ADDITIONS	(B) PLANT ADJMTS	(C) NET PLANT ADDITIONS	(D) PLANT RETIRMTS	(E) TOTAL PLANT VALUE	(F) ACCURAL DEPRECIATION	(G) ACCUMULATED DEPRECIATION	(H) NET PLANT VALUE
1	302	Franchises & Consents	\$ -	\$ -	\$ 10,422	\$ (5,109)	\$ 381,797	\$ (14,961)	\$ (147,533)	\$ 234,264
2	303	Miscellaneous Intangible	\$ -	\$ -	\$ 7,061	\$ (3,462)	\$ 258,677	\$ (10,137)	\$ (158,630)	\$ 100,047
3		Total Intangible Plant	\$ -	\$ -	\$ 17,483	\$ (8,571)	\$ 640,474	\$ (25,098)	\$ (306,163)	\$ 334,312
4	365	Transmission:	\$ -	\$ -	\$ 2,001	\$ -	\$ 73,307	\$ -	\$ -	\$ 73,312
5	366	Land & Rights	\$ -	\$ -	\$ 37	\$ (18)	\$ 1,371	\$ (42)	\$ (1,357)	\$ 14
6	367	Structures & Improvements	\$ -	\$ -	\$ 392,337	\$ (192,344)	\$ 14,372,676	\$ (361,865)	\$ (2,756,212)	\$ 11,616,464
7	369	Mains	\$ -	\$ -	\$ 90,305	\$ (44,272)	\$ 3,308,199	\$ (107,598)	\$ (422,143)	\$ 2,886,056
8	371	Measuring And Reg. Equipment	\$ -	\$ -	\$ 5,152	\$ (2,526)	\$ 188,733	\$ (6,730)	\$ (12,114)	\$ 176,619
9		Other Equipment	\$ -	\$ -	\$ 489,833	\$ (239,160)	\$ 17,944,287	\$ (476,235)	\$ (3,191,321)	\$ 14,752,466
		Total Transmission Plant	\$ -	\$ -	\$ 489,833	\$ (239,160)	\$ 17,944,287	\$ (476,235)	\$ (3,191,321)	\$ 14,752,466
10	374	Distribution:	\$ -	\$ -	\$ 3,777	\$ -	\$ 138,358	\$ -	\$ -	\$ 138,358
11	375	Land & Rights	\$ -	\$ -	\$ 270	\$ (132)	\$ 9,883	\$ (324)	\$ (8,018)	\$ 1,865
12	376	Structures & Improvements	\$ -	\$ -	\$ 3,427,462	\$ (1,680,316)	\$ 125,559,872	\$ (3,591,775)	\$ (23,811,005)	\$ 101,748,866
13	378	Mains	\$ -	\$ -	\$ 52,661	\$ (25,817)	\$ 1,929,172	\$ (108,293)	\$ (792,502)	\$ 1,136,671
14	379	Meas. And Reg. Equip. - General	\$ -	\$ -	\$ 55,207	\$ (27,066)	\$ 2,022,440	\$ (109,368)	\$ (818,765)	\$ 1,203,675
15	380	Meas. And Reg. Equip. - City Gate	\$ -	\$ -	\$ 1,419,504	\$ (695,914)	\$ 52,001,393	\$ (2,419,825)	\$ (16,738,277)	\$ 35,263,116
16	381	Services	\$ -	\$ -	\$ 272,484	\$ (133,586)	\$ 9,982,030	\$ (279,679)	\$ (3,984,453)	\$ 5,997,577
17	382	Meters	\$ -	\$ -	\$ 126,833	\$ (62,180)	\$ 4,646,335	\$ (130,182)	\$ (533,391)	\$ 4,112,944
18	383	Meter Installation	\$ -	\$ -	\$ 68,473	\$ (33,569)	\$ 2,508,409	\$ (92,644)	\$ (1,432,597)	\$ 1,075,812
19	384	Regulators	\$ -	\$ -	\$ 7,989	\$ (3,916)	\$ 292,650	\$ (10,808)	\$ (18,334)	\$ 274,316
20	385	Regulator Installation	\$ -	\$ -	\$ 24,590	\$ (12,055)	\$ 900,813	\$ (33,711)	\$ (572,021)	\$ 328,792
21	387	Industrial Measuring Equipment	\$ -	\$ -	\$ 20,344	\$ (9,973)	\$ 745,256	\$ (26,576)	\$ (189,758)	\$ 555,497
22		Other Equipment	\$ -	\$ -	\$ 5,479,593	\$ (2,684,527)	\$ 200,736,610	\$ (6,803,185)	\$ (48,899,122)	\$ 151,837,488
		Total Distribution Plant	\$ -	\$ -	\$ 5,479,593	\$ (2,684,527)	\$ 200,736,610	\$ (6,803,185)	\$ (48,899,122)	\$ 151,837,488
23	389	General:	\$ -	\$ -	\$ 19,375	\$ -	\$ 709,767	\$ -	\$ -	\$ 715,385
24	390	Land & Rights	\$ -	\$ -	\$ 131,917	\$ (64,673)	\$ 4,832,591	\$ (146,763)	\$ (815,243)	\$ 4,017,349
25	391	Structures & Improvements	\$ -	\$ -	\$ 244,477	\$ (119,855)	\$ 8,956,033	\$ (422,900)	\$ (4,334,189)	\$ 4,621,843
26	392	Office Furniture & Equipment	\$ -	\$ -	\$ 74,844	\$ (36,693)	\$ 2,741,810	\$ -	\$ (1,279,363)	\$ 1,462,447
27	393	Transportation Equipment	\$ -	\$ -	\$ 3,172	\$ (1,555)	\$ 116,205	\$ (2,584)	\$ (27,499)	\$ 88,706
28	394	Stores Equipment	\$ -	\$ -	\$ 49,180	\$ (24,111)	\$ 1,801,637	\$ (101,664)	\$ (661,031)	\$ 1,140,606
29	395	Tools, Shop And Garage Equip.	\$ -	\$ -	\$ 15,609	\$ (7,652)	\$ 571,797	\$ (32,266)	\$ (130,428)	\$ 441,368
30	396	Laboratory Equipment	\$ -	\$ -	\$ 10,885	\$ (5,336)	\$ 398,745	\$ (96,096)	\$ (411,317)	\$ (12,572)
31	397	Power Operated Equipment	\$ -	\$ -	\$ 25,721	\$ (12,610)	\$ 942,280	\$ (45,509)	\$ (173,990)	\$ 768,271
32	398	Communication Equipment	\$ -	\$ -	\$ 7,658	\$ (3,755)	\$ 280,552	\$ (14,924)	\$ (63,709)	\$ 216,844
33	399	Miscellaneous Equipment	\$ -	\$ -	\$ 2,809	\$ (1,377)	\$ 102,917	\$ (3,670)	\$ (23,606)	\$ 79,312
34		Other Tangible Property	\$ -	\$ -	\$ 585,648	\$ (277,616)	\$ 21,454,315	\$ (866,376)	\$ (7,914,756)	\$ 13,539,558
		Total General Plant	\$ -	\$ -	\$ 585,648	\$ (277,616)	\$ 21,454,315	\$ (866,376)	\$ (7,914,756)	\$ 13,539,558
35		TOTAL PLANT	\$ -	\$ -	\$ 6,572,557	\$ (3,209,815)	\$ 240,775,686	\$ (8,170,893)	\$ (60,311,963)	\$ 180,463,823

References:
Columns (A) (B) (C) (D): Company Response To RUCO Data Request 2.19
Column (E): Schedule RLM-4, Page 1, Column (I) + Column (C) + Column (D)

Column (F): [(C) (C) + Cl. (D)] X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + [RLM-4, Pg 1, Cl. (I) + Cl. (D)] X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 1, Column (J) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

**RATE BASE ADJUSTMENT NO. 1 - REMOVE UNSUBSTANTIATED PRE-ACQUISITION PLANT AND ACCUMULATED DEPRECIATION
TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2003**

LINE NO.	ACCT NO.	ACCOUNT NAME	(A) PLANT ADDITIONS	(B) PLANT ADJMTS	(C) NET PLANT ADDITIONS	(D) PLANT RETIRMTS	(E) TOTAL PLANT VALUE	(F) ACCURAL DEPRECIATION	(G) ACCUMULATED DEPRECIATION	(H) NET PLANT VALUE
1	302	Intangible:								
2	303	Franchises & Consents	\$ -	\$ -	\$ 6,539	\$ (1,064)	\$ 388,336	\$ (15,381)	\$ (161,850)	\$ 226,486
3	303	Miscellaneous Intangible	\$ -	\$ -	\$ 4,430	\$ (721)	\$ 263,108	\$ (10,421)	\$ (168,330)	\$ 94,777
		Total Intangible Plant	\$ -	\$ -	\$ 10,969	\$ (1,785)	\$ 651,444	\$ (25,803)	\$ (330,180)	\$ 321,263
4	365	Transmission:								
5	366	Land & Rights	\$ -	\$ -	\$ 1,256	\$ -	\$ 74,563	\$ -	\$ 5	\$ 74,568
6	367	Structures & Improvements	\$ -	\$ -	\$ 23	\$ (4)	\$ 1,395	\$ (43)	\$ (1,396)	\$ -
7	369	Mains	\$ -	\$ -	\$ 246,157	\$ (40,059)	\$ 14,618,833	\$ (372,026)	\$ (3,088,179)	\$ 11,530,654
8	371	Measuring And Reg. Equipment	\$ -	\$ -	\$ 56,859	\$ (9,220)	\$ 3,364,858	\$ (110,620)	\$ (523,542)	\$ 2,841,316
		Other Equipment	\$ -	\$ -	\$ 3,232	\$ (526)	\$ 191,965	\$ (6,919)	\$ (18,508)	\$ 173,458
9		Total Transmission Plant	\$ -	\$ -	\$ 307,326	\$ (49,809)	\$ 18,251,613	\$ (489,608)	\$ (3,631,620)	\$ 14,619,994
10	374	Distribution:								
11	375	Land & Rights	\$ -	\$ -	\$ 2,370	\$ -	\$ 140,727	\$ -	\$ -	\$ 140,727
12	376	Structures & Improvements	\$ -	\$ -	\$ 169	\$ (28)	\$ 10,052	\$ (333)	\$ (8,324)	\$ 1,728
13	378	Mains	\$ -	\$ -	\$ 2,150,427	\$ (349,956)	\$ 127,710,298	\$ (3,692,635)	\$ (27,153,685)	\$ 100,556,614
14	379	Meas. And Reg. Equip. - General	\$ -	\$ -	\$ 33,040	\$ (5,377)	\$ 1,962,213	\$ (111,334)	\$ (898,459)	\$ 1,063,754
15	380	Meas. And Reg. Equip. - City Gate	\$ -	\$ -	\$ 34,638	\$ (5,637)	\$ 2,057,078	\$ (112,439)	\$ (925,568)	\$ 1,131,510
16	381	Services	\$ -	\$ -	\$ 890,612	\$ (144,936)	\$ 52,892,006	\$ (2,487,776)	\$ (19,081,116)	\$ 33,810,889
17	382	Meters	\$ -	\$ -	\$ 170,959	\$ (27,822)	\$ 10,152,989	\$ (287,533)	\$ (4,244,164)	\$ 5,908,825
18	383	Meter Installation	\$ -	\$ -	\$ 79,576	\$ (12,950)	\$ 4,725,911	\$ (133,838)	\$ (654,279)	\$ 4,071,632
19	384	Regulators	\$ -	\$ -	\$ 42,961	\$ (6,991)	\$ 2,551,370	\$ (95,245)	\$ (1,520,851)	\$ 1,030,519
20	385	Regulator Installation	\$ -	\$ -	\$ 5,012	\$ (816)	\$ 297,662	\$ (11,112)	\$ (28,630)	\$ 269,031
21	387	Industrial Measuring Equipment	\$ -	\$ -	\$ 15,428	\$ (2,511)	\$ 916,241	\$ (34,658)	\$ (604,168)	\$ 312,073
22		Other Equipment	\$ -	\$ -	\$ 12,784	\$ (2,077)	\$ 758,019	\$ (27,322)	\$ (215,003)	\$ 543,017
		Total Distribution Plant	\$ -	\$ -	\$ 3,437,957	\$ (559,100)	\$ 204,174,567	\$ (6,994,225)	\$ (55,334,247)	\$ 148,840,320
23	389	General:								
24	390	Land & Rights	\$ -	\$ -	\$ 12,156	\$ -	\$ 721,923	\$ -	\$ 5,618	\$ 727,541
25	391	Structures & Improvements	\$ -	\$ -	\$ 82,766	\$ (13,469)	\$ 4,915,358	\$ (150,884)	\$ (952,658)	\$ 3,962,700
26	392	Office Furniture & Equipment	\$ -	\$ -	\$ 153,387	\$ (24,962)	\$ 9,109,420	\$ (434,776)	\$ (4,744,003)	\$ 4,365,417
27	393	Transportation Equipment	\$ -	\$ -	\$ 46,958	\$ (7,642)	\$ 2,788,769	\$ -	\$ (1,271,722)	\$ 1,517,047
28	394	Stores Equipment	\$ -	\$ -	\$ 1,990	\$ (324)	\$ 118,195	\$ (2,857)	\$ (29,832)	\$ 88,363
29	395	Tools, Shop And Garage Equip.	\$ -	\$ -	\$ 30,856	\$ (5,021)	\$ 1,832,493	\$ (104,518)	\$ (760,528)	\$ 1,071,965
30	396	Laboratory Equipment	\$ -	\$ -	\$ 9,793	\$ (1,594)	\$ 581,590	\$ (33,172)	\$ (162,006)	\$ 419,583
31	397	Power Operated Equipment	\$ -	\$ -	\$ 6,829	\$ (1,111)	\$ 405,574	\$ (98,794)	\$ (509,000)	\$ (103,426)
32	398	Communication Equipment	\$ -	\$ -	\$ 16,138	\$ (2,626)	\$ 958,398	\$ (46,786)	\$ (218,150)	\$ 740,248
33	399	Miscellaneous Equipment	\$ -	\$ -	\$ 4,905	\$ (782)	\$ 285,357	\$ (15,343)	\$ (78,270)	\$ 207,087
		Other Tangible Property	\$ -	\$ -	\$ 1,763	\$ (287)	\$ 104,680	\$ (3,773)	\$ (27,092)	\$ 77,588
		Total General Plant	\$ -	\$ -	\$ 367,442	\$ (57,818)	\$ 21,821,756	\$ (890,704)	\$ (8,747,642)	\$ 13,074,114
35		TOTAL PLANT	\$ -	\$ -	\$ -	\$ -	\$ 244,899,380	\$ -	\$ -	\$ -
36		Total Plant As Per Company	\$ -	\$ -	\$ -	\$ -	\$ 248,032,644	\$ -	\$ -	\$ -
37		Difference	\$ -	\$ -	\$ -	\$ -	\$ (3,133,264)	\$ -	\$ -	\$ -
38		RUCO Adjustment To Pre-Acquisition Gross Plant In Service (See RLM-3, Column (B))	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
39		RUCO Adjustment To Pre-Acquisition Accumulated Depreciation (See RLM-3, Column (B))	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

References:
Columns (A) (B) (C) (D): Company Response To RUCO Data Request 2.19
Column (E): Schedule RLM-4, Page 2, Column (E) + Column (C) + Column (D)
Column (F): [(C) + C] X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv.] + RLM-4, Pg 2, Cl. (E) + Cl. (D)] X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 2, Column (G) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2004

LINE NO.	ACCT NO.	ACCOUNT NAME	(A) PLANT ADDITIONS	(B) PLANT ADJMTS	(C) NET PLANT ADDITIONS	(D) PLANT RETIRMTS	(E) TOTAL PLANT VALUE	(F) ACCURAL DEPRECIATION	(G) ACCUMULATED DEPRECIATION	(H) NET PLANT VALUE
1	302	Franchises & Consents	\$ -	\$ -	\$ -	\$ -	\$ 388,336	\$ (15,533)	\$ (177,384)	\$ 210,953
2	303	Miscellaneous Intangible	\$ -	\$ -	\$ -	\$ -	\$ 263,108	\$ (10,524)	\$ (178,854)	\$ 84,253
3		Total Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ 651,444	\$ (26,058)	\$ (356,238)	\$ 295,206
4	365	Transmission :	\$ -	\$ -	\$ -	\$ -	\$ 74,563	\$ -	\$ 5	\$ 74,568
5	366	Land & Rights	\$ -	\$ -	\$ -	\$ -	1,395	(43)	(1,440)	(45)
6	367	Structures & Improvements	\$ -	\$ -	\$ -	\$ -	17,803,491	(416,627)	(3,504,806)	14,298,685
7	369	Mains	3,184,658	-	3,184,658	-	3,524,460	(114,363)	(637,905)	2,886,555
8	369	Measuring And Reg. Equipment	159,602	-	159,602	-	191,965	(6,988)	(25,495)	166,470
9	371	Other Equipment	\$ -	\$ -	\$ -	\$ -	\$ 21,593,873	\$ (538,020)	\$ (4,169,640)	\$ 17,425,233
10	374	Distribution:	\$ -	\$ -	\$ -	\$ -	\$ 140,727	\$ -	\$ -	\$ 140,727
11	375	Land & Rights	\$ -	\$ -	\$ -	\$ -	10,052	(337)	(8,661)	1,391
12	376	Structures & Improvements	\$ -	\$ -	\$ -	\$ -	135,140,112	(3,837,616)	(30,991,301)	104,148,812
13	378	Mains	7,429,814	-	7,429,814	-	2,045,961	(114,834)	(1,013,293)	1,032,668
14	379	Meas. And Reg. Equip. - General	83,748	-	83,748	-	2,062,026	(113,687)	(1,039,255)	1,022,771
15	380	Meas. And Reg. Equip. - City Gate	4,948	-	4,948	-	59,197,736	(2,662,131)	(21,743,248)	37,454,488
16	381	Services	6,305,730	-	6,305,730	-	10,760,231	(299,059)	(4,543,223)	6,217,008
17	382	Meters	607,242	-	607,242	-	4,725,911	(135,161)	(789,440)	3,936,471
18	383	Meter Installation	-	-	-	-	2,580,650	(96,739)	(1,617,590)	963,060
19	384	Regulators	29,280	-	29,280	-	297,662	(11,222)	(39,852)	257,809
20	385	Industrial Measuring Equipment	85,105	-	85,105	-	1,001,346	(36,626)	(640,794)	360,552
21	387	Other Equipment	69,771	-	69,771	-	827,790	(28,862)	(243,864)	583,926
22		Total Distribution Plant	\$ 14,615,638	\$ -	\$ 14,615,638	\$ -	\$ 218,790,205	\$ (7,336,274)	\$ (62,670,521)	\$ 156,119,684
23	389	General:	\$ -	\$ -	\$ -	\$ -	\$ 721,923	\$ -	\$ 5,618	\$ 727,541
24	390	Land & Rights	\$ -	\$ -	\$ -	\$ -	4,965,284	(153,150)	(1,105,808)	3,859,476
25	391	Structures & Improvements	49,926	-	49,926	-	9,581,863	(450,455)	(5,194,458)	4,387,205
26	392	Office Furniture & Equipment	472,243	-	472,243	-	4,127,470	-	(1,245,276)	2,882,194
27	393	Transportation Equipment	1,365,147	-	1,365,147	(26,446)	122,357	(2,730)	(32,562)	89,795
28	394	Stores Equipment	4,162	-	4,162	-	1,905,277	(107,648)	(868,176)	1,037,102
29	395	Tools, Shop And Garage Equip.	72,784	-	72,784	-	620,818	(34,629)	(196,636)	424,182
30	396	Laboratory Equipment	39,228	-	39,228	-	405,574	(99,771)	(608,771)	(203,197)
31	397	Power Operated Equipment	-	-	-	-	1,038,969	(49,235)	(267,385)	771,584
32	398	Communication Equipment	80,571	-	80,571	-	285,357	(15,495)	(93,765)	191,593
33	399	Miscellaneous Equipment	-	-	-	-	104,680	(3,810)	(30,902)	73,778
34		Other Tangible Property	\$ -	\$ -	\$ -	\$ -	\$ 23,879,371	\$ (916,924)	\$ (9,638,120)	\$ 14,241,251
35		Total General Plant	\$ 2,084,061	\$ -	\$ 2,084,061	\$ (26,446)	\$ 264,916,893	\$ (8,817,276)	\$ (76,834,519)	\$ 188,082,374
36		TOTAL PLANT	\$ 20,043,959	\$ -	\$ 20,043,959	\$ (26,446)	\$ 264,916,893	\$ (8,817,276)	\$ (76,834,519)	\$ 188,082,374

References:

Columns (A) (B) (C) (D): Company Response To RUCO Data Request 1.08
Column (E): Schedule RLM-4, Page 3, Column (E) + Column (C) + Column (D)

Column (F): [(C) + (D)] X RLM-4, Pg 1, Cl. (B) X 1/2 yr. conv. + [RLM-4, Pg 3, Cl. (E) + (D)] X RLM-4, Pg 1, Cl. (B)
Column (G): Schedule RLM-4, Page 3, Column (G) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

RATE BASE ADJUSTMENT NO. 2 - REMOVE TEST-YEAR ACCUMULATED DEPRECIATION
TEST YEAR PLANT SCHEDULES - CONT'D
YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT NO.	ACCOUNT NAME	(A) PLANT ADDITIONS	(B) PLANT ADJMT'S	(C) NET PLANT ADDITIONS	(D) PLANT RETIRMT'S	(E) TOTAL PLANT VALUE	(F) ACCURAL DEPRECIATION	(G) ACCUMULATED DEPRECIATION	(H) NET PLANT VALUE
1	302	Intangible:								
2	303	Franchises & Consents	\$ -	\$ -	\$ -	\$ -	\$ 388,336	\$ (15,533)	\$ (192,917)	\$ 195,419
3	303	Miscellaneous Intangible	\$ 15,100	-	\$ 15,100	-	\$ 278,208	\$ (10,826)	\$ (189,681)	\$ 88,527
4	365	Total Intangible Plant	\$ 15,100	-	\$ 15,100	-	\$ 666,544	\$ (26,360)	\$ (382,598)	\$ 283,946
5	366	Transmission:								
6	367	Land & Rights	\$ -	\$ -	\$ -	\$ -	\$ 74,563	\$ -	\$ 5	\$ 74,568
7	369	Structures & Improvements	-	-	-	-	1,395	(43)	(1,483)	(88)
8	371	Mains	5,001,194	-	5,001,194	-	22,804,685	(521,815)	(4,026,621)	18,778,064
9	371	Measuring And Reg. Equipment	806	-	806	-	3,525,266	(117,025)	(754,930)	2,770,336
10	374	Other Equipment	-	-	-	-	191,965	(6,988)	(32,483)	159,483
11	375	Total Transmission Plant	\$ 5,002,000	-	\$ 5,002,000	-	\$ 26,597,873	\$ (645,871)	\$ (4,815,511)	\$ 21,782,362
12	376	Distribution:								
13	376	Land & Rights	\$ -	\$ -	\$ -	\$ -	\$ 140,727	\$ -	\$ -	\$ 140,727
14	378	Structures & Improvements	-	-	-	-	10,052	(337)	(8,997)	1,055
15	379	Mains	6,342,549	-	6,342,549	(607,106)	140,875,555	(4,029,829)	(34,414,023)	106,461,532
16	380	Meas. And Reg. Equip. - General	74,523	-	74,523	-	2,120,484	(119,369)	(1,132,662)	987,822
17	381	Meas. And Reg. Equip. - City Gate	303,733	-	303,733	-	2,365,759	(122,207)	(1,161,462)	1,204,297
18	382	Services	6,547,947	-	6,547,947	(22,405)	65,723,278	(2,966,674)	(24,687,717)	41,035,561
19	383	Meters	1,180,280	-	1,180,280	-	11,940,511	(324,621)	(4,867,844)	7,072,667
20	384	Meter Installation	981,154	-	981,154	-	5,707,065	(149,192)	(938,632)	4,768,434
21	385	Regulators	323,346	-	323,346	-	2,903,996	(103,386)	(1,720,975)	1,183,021
22	387	Industrial Measuring Equipment	552,063	-	552,063	-	849,725	(21,628)	(61,480)	788,244
23	389	Other Equipment	162,566	-	162,566	-	1,163,912	(41,356)	(682,150)	481,762
24	390	Total Distribution Plant	\$ 16,896,769	-	\$ 16,896,769	\$ (629,511)	\$ 235,057,463	\$ (7,916,730)	\$ (69,957,740)	\$ 165,099,723
25	391	General:								
26	392	Land & Rights	\$ -	\$ -	\$ -	\$ -	\$ 721,923	\$ -	\$ 5,618	\$ 727,541
27	393	Structures & Improvements	156,182	-	156,182	-	5,121,466	(156,345)	(1,262,152)	3,859,313
28	394	Office Furniture & Equipment	188,683	-	188,683	-	9,770,346	(466,383)	(5,660,842)	4,109,504
29	395	Transportation Equipment	3,091,785	-	3,091,785	(1,951,895)	5,287,360	(2,748)	706,619	5,993,979
30	396	Stores Equipment	-	-	-	(2,576)	119,781	(2,748)	(32,735)	87,047
31	397	Tools, Shop And Garage Equip.	66,811	-	66,811	-	1,972,088	(111,668)	(979,844)	992,244
32	398	Laboratory Equipment	33,550	-	33,550	-	654,368	(36,725)	(233,361)	421,007
33	399	Power Operated Equipment	93,549	-	93,549	-	499,123	(111,278)	(720,049)	(220,926)
34	399	Communication Equipment	-	-	-	(4,649)	1,034,320	(51,107)	(313,843)	720,477
35	399	Miscellaneous Equipment	-	-	-	-	285,357	(15,495)	(109,260)	176,098
36	399	Other Tangible Property	-	-	-	-	104,680	(3,810)	(34,713)	69,967
37	399	Total General Plant	\$ 3,630,560	-	\$ 3,630,560	\$ (1,959,120)	\$ 25,550,811	\$ (955,559)	\$ (8,634,560)	\$ 16,916,252
38	399	TOTAL PLANT	\$ 25,544,429	-	\$ 25,544,429	\$ (2,588,631)	\$ 287,872,691	\$ (9,544,520)	\$ (83,790,408)	\$ 204,082,283
39	399	Total Plant As Per Company								
40	399	Difference								
41	399	RUCO Adjustment To Pre-Acquisition Accumulated Depreciation (See RLM-4, Page 3, Lines 39)								
42	399	RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-3, Column (C))								
43	399	Columns (A) (B) (C) (D): Company Response To RUCO Data Request 1.08								
44	399	Column (E): Schedule RLM-4, Page 4, Column (E) + Column (C) + Column (D)								
45	399	Column (F): [(C) (G) + C] X RLM-4, Pg 1, C] X 1/2 yr. conv.] + [RLM-4, Pg 4, C] (E) + C] X RLM-4, Pg 1, C] (B),								
46	399	Column (G): Schedule RLM-4, Page 4, Column (G) + Column (D) + Column (F)								
47	399	Column (H): Column (E) + Column (G)								

References:

Columns (A) (B) (C) (D): Company Response To RUCO Data Request 1.08
Column (E): Schedule RLM-4, Page 4, Column (E) + Column (C) + Column (D)

RUCO Adjustment To Pre-Acquisition Accumulated Depreciation (See RLM-4, Page 3, Lines 39)

RUCO Adjustment To Test-Year Accumulated Depreciation (See RLM-3, Column (C))

Columns (A) (B) (C) (D): Company Response To RUCO Data Request 1.08
Column (E): Schedule RLM-4, Page 4, Column (E) + Column (C) + Column (D)

Column (F): [(C) (G) + C] X RLM-4, Pg 1, C] X 1/2 yr. conv.] + [RLM-4, Pg 4, C] (E) + C] X RLM-4, Pg 1, C] (B),
Column (G): Schedule RLM-4, Page 4, Column (G) + Column (D) + Column (F)
Column (H): Column (E) + Column (G)

RATE BASE ADJUSTMENT NO. 3 - REMOVE CWIP FROM TEST-YEAR RATE BASE

TEST YEAR PLANT SCHEDULES - CONT'D

PRO FORMA ADJUSTMENTS TO TEST YEAR ENDED DECEMBER 31, 2005

LINE NO.	ACCT NO.	ACCOUNT NAME	(A) GRIFFITH POWER PLANT		(B) ACC. DEP ADJUSTMENTS		(C) BUILD-OUT PLANT		(D) ACC. DEP ADJUSTMENTS		(E) RUCO ADJUSTED TOTAL PLANT VALUE		(F) RUCO ADJUSTED ACCUMULATED DEPRECIATION		(G) RUCO ADJUSTED NET PLANT VALUE	
			ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT	ADJUSTMENTS	PLANT
1	302	Intangible:														
2	303	Franchises & Consents	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 388,336	\$ -	\$ (192,917)	\$ -	\$ 195,419	\$ -
3	303	Miscellaneous Intangible	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	278,208	\$ -	\$ (189,681)	\$ -	\$ 88,527	\$ -
		Total Intangible Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 666,544	\$ -	\$ (382,598)	\$ -	\$ 283,946	\$ -
4	365	Transmission:														
5	365	Land & Rights	\$ (10,075)	\$ -	\$ -	\$ (7,441)	\$ -	\$ -	\$ -	\$ -	\$ 57,047	\$ -	\$ -	\$ 5	\$ 57,052	\$ -
6	367	Structures & Improvements	-	-	-	(1,222)	173	-	-	-	173	-	(1,053)	-	(880)	-
7	369	Mains	(3,421,025)	-	511,821	(1,606,936)	417,127	-	-	-	17,776,724	-	(3,097,673)	-	14,679,051	-
8	371	Measuring And Reg. Equipment	(2,557,112)	-	372,457	(259,186)	70,426	-	-	-	708,968	-	(312,047)	-	396,921	-
		Other Equipment	(183,581)	-	44,626	(13,313)	4,641	-	-	-	(4,929)	-	16,784	-	11,856	-
9		Total Transmission Plant	\$ (6,171,793)	\$ -	\$ 928,904	\$ (1,888,098)	\$ 492,624	\$ -	\$ -	\$ -	\$ 18,537,982	\$ -	\$ (3,393,983)	\$ -	\$ 15,143,999	\$ -
10		Distribution:														
11	374	Land & Rights	\$ -	\$ -	\$ -	\$ (18,709)	\$ -	\$ -	\$ -	\$ -	\$ 122,018	\$ -	\$ -	\$ -	\$ 122,018	\$ -
12	375	Structures & Improvements	-	-	-	(794)	1,016	-	-	-	9,258	-	(7,981)	-	1,277	-
13	376	Mains	-	-	-	(10,506,547)	3,424,497	-	-	-	130,369,008	-	(30,989,526)	-	99,379,482	-
14	378	Meas. And Reg. Equip. - General	-	-	-	(145,939)	98,248	-	-	-	1,974,545	-	(1,034,414)	-	940,131	-
15	379	Meas. And Reg. Equip. - City Gate	-	-	-	(169,292)	85,420	-	-	-	2,196,467	-	(1,076,042)	-	1,120,425	-
16	380	Services	-	-	-	-	-	-	-	-	65,723,278	-	(24,687,717)	-	41,035,561	-
17	381	Meters	-	-	-	-	-	-	-	-	11,940,511	-	(4,867,844)	-	7,072,667	-
18	382	Meter Installation	-	-	-	-	-	-	-	-	5,707,065	-	(938,632)	-	4,768,434	-
19	383	Regulators	-	-	-	-	-	-	-	-	2,903,996	-	(1,720,975)	-	1,183,021	-
20	384	Regulator Installation	-	-	-	-	-	-	-	-	849,725	-	(61,480)	-	788,244	-
21	385	Industrial Measuring Equipment	-	-	-	-	-	-	-	-	1,151,303	-	(680,738)	-	470,565	-
22	387	Other Equipment	(12,609)	-	1,412	(111,710)	38,712	-	-	-	1,144,688	-	(243,085)	-	901,604	-
		Total Distribution Plant	\$ (12,609)	\$ -	\$ 1,412	\$ (10,952,991)	\$ 38,712	\$ -	\$ -	\$ -	\$ 224,091,863	\$ -	\$ (66,308,435)	\$ -	\$ 157,783,428	\$ -
		General:														
23	389	Land & Rights	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 721,923	\$ -	\$ 5,618	\$ -	\$ 727,541	\$ -
24	390	Structures & Improvements	-	-	-	-	-	-	-	-	5,121,466	-	(1,262,152)	-	3,859,313	-
25	391	Office Furniture & Equipment	-	-	-	-	-	-	-	-	9,770,346	-	(5,660,842)	-	4,109,504	-
26	392	Transportation Equipment	-	-	-	-	-	-	-	-	5,287,360	-	706,619	-	5,993,979	-
27	393	Stores Equipment	-	-	-	-	-	-	-	-	119,781	-	(32,735)	-	87,047	-
28	394	Tools, Shop And Garage Equip.	-	-	-	-	-	-	-	-	1,972,088	-	(979,844)	-	992,244	-
29	395	Laboratory Equipment	-	-	-	-	-	-	-	-	654,368	-	(233,361)	-	421,007	-
30	396	Power Operated Equipment	-	-	-	-	-	-	-	-	499,123	-	(720,049)	-	(220,926)	-
31	397	Communication Equipment	-	-	-	-	-	-	-	-	1,034,320	-	(313,843)	-	720,477	-
32	398	Miscellaneous Equipment	-	-	-	-	-	-	-	-	285,357	-	(109,260)	-	176,098	-
33	399	Other Tangible Property	-	-	-	-	-	-	-	-	104,680	-	(34,713)	-	69,967	-
34		Total General Plant	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 25,550,811	\$ -	\$ (8,634,560)	\$ -	\$ 16,916,252	\$ -
35		TOTAL PLANT	\$ (6,184,402)	\$ -	\$ 930,316	\$ (12,841,089)	\$ 4,140,517	\$ -	\$ -	\$ -	\$ 288,847,200	\$ -	\$ (78,719,575)	\$ -	\$ 190,127,625	\$ -
36		Total Plant As Per Company	\$ -	\$ -	\$ (11,836,260)	\$ (11,836,260)	\$ -	\$ -	\$ -	\$ -	\$ 279,169,684	\$ -	\$ (72,006,708)	\$ -	\$ 213,928,413	\$ -
37		Difference	\$ (6,184,402)	\$ -	\$ 12,766,576	\$ (1,004,829)	\$ 4,140,517	\$ -	\$ -	\$ -	\$ (10,322,494)	\$ -	\$ (6,712,867)	\$ -	\$ (23,800,788)	\$ -
38		RUCO Adjustment To Pre-Aquisition Gross Plant In Service (See RLM-4, Page 3, Lines 38)														
39		RUCO Adjustment To Pro-Forma Test-Year Gross Plant In Service (See RLM-3, Column (E))														

References:

Columns (A) (B) (C) (D): Company Workpapers
Column (E): Schedule RLM-4, Page 5, Column (E) + Column (A) + Column (C)
Column (F): Schedule RLM-4, Page 5, Column (G) + Column (B) + Column (D)
Column (G): Column (E) + Column (F)

OPERATING INCOME

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO TEST YEAR ADJ'TMENTS	(C) RUCO TEST YEAR AS ADJUSTED	(D) RUCO PROPOSED CHANGES	(E) RUCO AS RECOMMENDED
	Operating Revenues:					
1	Gas Retail Revenues	\$ 45,689,224	\$ 110,906	\$ 45,800,130	\$ 1,505,003	\$ 47,305,133
2	Other Operating Revenue	1,480,304	-	1,480,304	-	1,480,304
3	TOTAL OPERATING REVENUES	<u>\$ 47,169,528</u>	<u>\$ 110,906</u>	<u>\$ 47,280,434</u>	<u>\$ 1,505,003</u>	<u>\$ 48,785,437</u>
	Operating Expenses:					
4	Purchased Gas	\$ 355,528	\$ (54)	\$ 355,474	\$ -	\$ 355,474
5	Other O & M Expense	24,459,038	(2,057,381)	22,401,657	-	22,401,657
6	Depreciation & Amortization	7,220,391	(646,479)	6,573,912	-	6,573,912
7	Taxes Other Than Income Taxes	4,730,093	(1,147,587)	3,582,506	-	3,582,506
8	Income Taxes	1,975,497	1,830,390	3,805,887	585,627	4,391,514
9	TOTAL OPERATING EXPENSES	<u>\$ 38,740,547</u>	<u>\$ (2,021,111)</u>	<u>\$ 36,719,436</u>	<u>\$ 585,627</u>	<u>\$ 37,305,063</u>
10	OPERATING INCOME (LOSS)	<u>\$ 8,428,981</u>		<u>\$ 10,560,998</u>		<u>\$ 11,480,374</u>

References:

Column (A): Company Schedule C-1
Column (B): Testimony, RLM And Schedule RLM-7, Pages 1 Thru 6
Column (C): Column (A) + Column (B)
Column (D): Testimony, RLM And Schedule RLM-1
Column (E): Column (C) + Column (D)

SUMMARY OF OPERATING INCOME ADJUSTMENT
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ. NO. 1 WORKERS COMP.	(C) ADJ. NO. 2 INCENTIVE COMP.	(D) ADJ. NO. 3 DEPRECIATION EXPENSE	(E) ADJ. NO. 4 POSTAGE EXPENSE	(F) ADJ. NO. 5 CUSTOMER SERVICE COSTS	(G) ADJ. NO. 6 UNNECESSARY EXPENSES	(H) ADJ. NO. 7 PROPERTY TAX
	Operating Revenue								
1	Net Sales to Ultimate Customers	\$ 42,950,315	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2	Transportation of Gas	2,738,909	-	-	-	-	-	-	-
3	Gas Retail Revenue	\$ 45,689,224	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
4	Forfeited Discounts (Late Fees)	\$ 398,966	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
5	Miscellaneous Service Revenues	1,046,891	-	-	-	-	-	-	-
6	Other Gas Revenues	34,447	-	-	-	-	-	-	-
7	Other Operating Revenue	\$ 1,480,304	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Total Operating Revenue	\$ 47,169,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Operating Expense								
9	Purchased Gas	\$ 385,528	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
10	Transmission - Mains Expense	\$ 11,280	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
11	Transmission - Meas. and Reg. Station	(52,221)	-	-	-	-	-	-	-
12	Transmission - Maint. Compressor Stat. Equip.	19	-	-	-	-	-	-	-
13	Transmission - Oper. Super'n and Eng.	315,983	-	-	-	-	-	-	-
14	Distribution - Load Dispatching	162	-	-	-	-	-	-	-
15	Distribution - Mains and Services	1,337,349	-	-	-	-	-	-	-
16	Distribution - Meas. and Reg. Station - Gen.	244,463	-	(42,144)	-	-	-	(1,592)	-
17	Distribution - Meas. and Reg. Station - Ind.	150,536	-	-	-	-	-	-	-
18	Distribution - Meas. and Reg. Station - City	56,529	-	-	-	-	-	-	-
19	Distribution - Meter and House Regulator	1,349,114	-	(34,242)	-	-	-	-	-
20	Distribution - Customer Installations	539,082	-	-	-	-	-	-	-
21	Distribution - Other Expenses	1,090,666	-	-	-	-	-	(27,217)	-
22	Distribution - Rents	44,510	-	-	-	-	-	-	-
23	Distribution - Maint. Super'n & Eng.	243,170	-	-	-	-	-	-	-
24	Distribution - Maintenance of Mains	1,084,194	-	(26,340)	-	-	-	-	-
25	Distribution - Maint. M & R Stat. Equip. - Gen.	25,623	-	-	-	-	-	-	-
26	Distribution - Maint. M & R Stat. Equip. - Ind.	2,072	-	-	-	-	-	-	-
27	Distribution - Maint. M & R Equip. - City Gate	850	-	-	-	-	-	-	-
28	Distribution - Maintenance of Services	485,066	-	-	-	-	-	-	-
29	Distribution - Maint. of Meters and Reg.	167,015	-	-	-	-	-	-	-
30	Distribution - Maintenance of Other Equip.	96,826	-	-	-	-	-	-	-
31	Customer Account - Supervision	74,309	-	-	-	-	-	-	-
32	Customer Account - Meter Reading	719,037	-	-	-	-	-	-	-
33	Customer Account - Records and Collection	5,462,173	-	(60,582)	-	(153,479)	(490,413)	-	-
34	Customer Account - Uncollectibles	722,634	-	-	-	-	-	-	-

SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) ADJ. NO. 1 WORKERS COMP.	(C) ADJ. NO. 2 INCENTIVE COMP.	(D) ADJ. NO. 3 DEPRECIATION EXPENSE	(E) ADJ. NO. 4 POSTAGE EXPENSE	(F) ADJ. NO. 5 CUSTOMER SERVICE COSTS	(G) ADJ. NO. 6 UNNECESSARY EXPENSES	(H) ADJ. NO. 7 PROPERTY TAX
35	Continued								
36	Customer Account - Miscellaneous	\$ 34,381	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
37	Customer Account - SuperV'n - Cust. Service	14,743	-	-	-	-	-	-	-
38	Customer Account - Assistance	(34,228)	-	-	-	-	-	-	-
39	Customer Account - Info and Instruct Advert.	65,794	-	-	-	-	-	-	-
40	Customer Account - Miscellaneous	22,602	-	-	-	-	-	-	-
41	Sales - Demonstrating and Selling	558	-	-	-	-	-	-	-
42	A & G - Salaries	1,529,696	-	(94,587)	-	-	(25,437)	-	-
43	A & G - Office Supplies and Expenses	1,365,974	-	-	-	-	(11,157)	(107,076)	-
44	A & G - Transferred - Credit	(152,817)	-	-	-	-	(133)	-	-
45	A & G - Outside Services Employed	2,696,531	-	-	-	-	(2,559)	(14,738)	-
46	A & G - Property Insurance	7,415	-	-	-	-	(1,329)	-	-
47	A & G - Injuries and Damages	574,128	(34,234)	-	-	-	(293)	-	-
48	A & G - Employee Pension and Benefits	2,452,071	-	-	-	-	(143,577)	(6,230)	-
49	A & G - Miscellaneous General Expenses	1,082,411	-	-	-	-	(76,494)	-	-
50	A & G - Rents	109,053	-	-	-	-	-	-	-
51	A & G - Maintenance of General Plant	189,826	-	-	-	-	-	-	-
52	A & G - Rate Case Expense	200,000	-	-	-	-	-	-	-
53	Interest On Customer Deposits	170,459	-	-	-	-	-	-	-
54	Other Oper. and Maint. Expense	\$ 24,459,038	\$ (34,234)	\$ (257,895)	\$ -	\$ (153,479)	\$ (674,898)	\$ (233,347)	\$ -
55	Dep. & Amort. - Citizens Acq. Discount	\$ (729,791)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
56	Dep. & Amort. - Intangible Plant	929,602	-	-	(57,341)	-	-	-	-
57	Dep. & Amort. - Transmission Plant	285,187	-	-	(1,618)	-	-	-	-
58	Dep. & Amort. - Distribution Plant	5,631,142	-	-	(427,753)	-	-	-	-
59	Dep. & Amort. - General Plant	1,104,251	-	-	162,629	-	(23,373)	-	-
60	Depreciation and Amortization	\$ 7,220,391	\$ -	\$ -	\$ (324,083)	\$ -	\$ (23,373)	\$ -	\$ -
61	Property Tax	\$ 4,103,375	\$ -	\$ -	\$ -	\$ -	\$ (28,439)	\$ -	\$ (309,309)
62	Payroll Tax - FUTA, SUTA, FICA & Medicare	537,877	-	(20,853)	-	-	-	-	-
63	Medical and Dental	86,130	-	-	-	-	-	-	-
64	Other	2,711	-	-	-	-	-	-	-
65	Taxes Other Than Income Taxes	\$ 4,730,093	\$ -	\$ (20,853)	\$ -	\$ -	\$ (28,439)	\$ -	\$ (309,309)
66	Income Taxes	\$ 1,975,497	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
67	Total Operating Expense	\$ 38,740,547	\$ (34,234)	\$ (278,748)	\$ (324,083)	\$ (153,479)	\$ (726,710)	\$ (233,347)	\$ (309,309)
68	Operating Income	\$ 8,428,981	\$ 34,234	\$ 278,748	\$ 324,083	\$ 153,479	\$ 726,710	\$ 233,347	\$ 309,309

SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(I) ADJ. NO. 8 RATE CASE EXPENSE	(J) ADJ. NO. 9 AGA DUES	(K) ADJ. NO. 10 ATYPICAL EXPENSES	(L) ADJ. NO. 11 SERP	(M) ADJ. NO. 12 AMORTIZATION GIS O&M	(N) ADJ. NO. 13 FLEET FUEL EXPENSE	(O) ADJ. NO. 14 CUSTOMER ANNUALIZ'N	(P) ADJ. NO. 15 CUSTOMER WEATHERIZ'N
1	Operating Revenue								
2	Net Sales to Ultimate Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,006	\$ 900
3	Transportation of Gas								
4	Gas Retail Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,006	\$ 900
5	Forfeited Discounts (Late Fees)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
6	Miscellaneous Service Revenues								
7	Other Gas Revenues	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
8	Total Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 110,006	\$ 900
9	Operating Expense								
10	Purchased Gas	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (54)	\$ -	\$ -
11	Transmission - Mains Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (69)	\$ -	\$ -
12	Transmission - Meas. and Reg. Station						(1)		
13	Transmission - Maint. Compressor Stat. Equip.						(1,907)		
14	Transmission - Oper. Super'n and Eng.								
15	Distribution - Load Dispatching								
16	Distribution - Mains and Services						(5,801)		
17	Distribution - Meas. and Reg. Station - Gen.						(1,095)		
18	Distribution - Meas. and Reg. Station - Ind.						(834)		
19	Distribution - Meter and House Regulator						(123)		
20	Distribution - Customer Installations						(6,218)		
21	Distribution - Other Expenses						(2,502)		
22	Distribution - Rents						(1,956)		
23	Distribution - Maint. Superv'n & Eng.								
24	Distribution - Maintenance of Mains						(1,358)		
25	Distribution - Maint. M & R Stat. Equip. - Gen.						(3,330)		
26	Distribution - Maint. M & R Stat. Equip. - Ind.						(19)		
27	Distribution - Maint. M & R Equip. - City Gate						(1)		
28	Distribution - Maintenance of Services						(1)		
29	Distribution - Maint. of Meters and Reg.						(2,229)		
30	Distribution - Maintenance of Other Equip.						(366)		
31	Customer Account - Supervision						(169)		
32	Customer Account - Meter Reading						(415)		
33	Customer Account - Records and Collection						(3,799)		
34	Customer Account - Uncollectibles						(7,985)		

SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(I) ADJ. NO. 8 RATE CASE EXPENSE	(J) ADJ. NO. 9 AGA DUES	(K) ADJ. NO. 10 ATYPICAL EXPENSES	(L) ADJ. NO. 11 SERP	(M) ADJ. NO. 12 AMORTIZATION GIS O&M	(N) ADJ. NO. 13 FLEET FUEL EXPENSE	(O) ADJ. NO. 14 CUSTOMER ANNUALIZN	(P) ADJ. NO. 15 CUSTOMER WEATHERIZN
Continued									
35	Customer Account - Miscellaneous	\$ -	\$ -	-	-	\$ -	\$ (9)	-	\$ -
36	Customer Account - Superv'n - Cust. Service	-	-	-	-	-	(66)	-	-
37	Customer Account - Assistance	-	-	-	-	-	(71)	-	-
38	Customer Account - Info and Instruct Advert.	-	-	-	-	-	(9)	-	-
39	Customer Account - Miscellaneous	-	-	-	-	-	-	-	-
40	Sales - Demonstrating and Selling	-	-	-	-	-	-	-	-
41	A & G - Salaries	-	-	-	-	-	-	-	-
42	A & G - Office Supplies and Expenses	-	-	(2,584)	-	-	(8,981)	-	-
43	A & G - Transferred - Credit	-	-	-	-	-	-	-	-
44	A & G - Outside Services Employed	-	-	-	-	-	-	-	-
45	A & G - Property Insurance	-	-	-	-	-	-	-	-
46	A & G - Injuries and Damages	-	-	-	-	-	(3)	-	-
47	A & G - Employee Pension and Benefits	-	-	-	(93,075)	-	-	-	-
48	A & G - Miscellaneous General Expenses	-	(1,523)	-	-	-	(65)	-	-
49	A & G - Rents	-	-	-	-	-	-	-	-
50	A & G - Maintenance of General Plant	-	-	-	-	-	(120)	-	-
51	A & G - Rate Case Expense	-	-	-	-	-	-	-	-
52	Interest On Customer Deposits	-	-	-	-	-	-	-	-
53	Other Oper. and Maint. Expense	\$ (116,333)	\$ (1,523)	\$ (2,584)	\$ (93,075)	\$ -	\$ (49,493)	\$ -	\$ -
54	Dep. & Amort. - Citizens Acq. Discount	\$ -	\$ -	-	-	\$ -	\$ -	\$ -	\$ -
55	Dep. & Amort. - Intangible Plant	-	-	-	-	-	-	-	-
56	Dep. & Amort. - Transmission Plant	-	-	-	-	(299,023)	-	-	-
57	Dep. & Amort. - Distribution Plant	-	-	-	-	-	-	-	-
58	Dep. & Amort. - General Plant	-	-	-	-	-	-	-	-
59	Depreciation and Amortization	\$ -	\$ -	\$ -	\$ -	\$ (299,023)	\$ -	\$ -	\$ -
60	Property Tax	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
61	Payroll Tax - FUTA, SUTA, FICA & Medicare	-	-	-	-	-	-	-	-
62	Medical and Dental	-	-	-	-	-	-	-	-
63	Other	-	-	-	-	-	-	-	-
64	Taxes Other Than Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
65	Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
66	Total Operating Expense	\$ (116,333)	\$ (1,523)	\$ (2,584)	\$ (93,075)	\$ (299,023)	\$ (49,547)	\$ -	\$ -
67	Operating Income	\$ 116,333	\$ 1,523	\$ 2,584	\$ 93,075	\$ 299,023	\$ 49,547	\$ 110,006	\$ 900

LINE NO.	DESCRIPTION	(Q)	(R)	(S)	(T)	(U)	(V)	(W)	(X)
		ADJ. NO. 16 CORP. COST ALLOCATION	ADJ. NO. 17 UNCOLLECTIBLES	ADJ. NO. 18 CWIP PROP. TAXES	ADJ. NO. 19 OUT OF PERIOD EXPENSES	ADJ. NO. 20	ADJ. NO. 21	ADJ. NO. 22 INCOME TAX	AS ADJUSTED RUCO
1	Operating Revenue								
2	Net Sales to Ultimate Customers	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,061,221
3	Transportation of Gas	-	-	-	-	-	-	-	2,738,909
4	Gas Retail Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 45,800,130
5	Forfeited Discounts (Late Fees)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 398,966
6	Miscellaneous Service Revenues	-	-	-	-	-	-	-	1,046,891
7	Other Gas Revenues	-	-	-	-	-	-	-	34,447
8	Other Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,480,304
9	Total Operating Revenue	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 47,280,434
10	Purchased Gas	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 355,474
11	Transmission - Mains Expense	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	11,211
12	Transmission - Meas. and Reg. Station	-	-	-	-	-	-	-	(52,222)
13	Transmission - Maint. Compressor Stat. Equip.	-	-	-	-	-	-	-	19
14	Transmission - Oper. Super'n and Eng.	-	-	-	-	-	-	-	314,076
15	Distribution - Load Dispatching	-	-	-	-	-	-	-	162
16	Distribution - Mains and Services	-	-	-	-	-	-	-	1,287,812
17	Distribution - Meas. and Reg. Station - Gen.	-	-	-	-	-	-	-	243,368
18	Distribution - Meas. and Reg. Station - Ind.	-	-	-	-	-	-	-	149,702
19	Distribution - Meas. and Reg. Station - City	-	-	-	-	-	-	-	56,406
20	Distribution - Meter and House Regulator	-	-	-	-	-	-	-	1,308,654
21	Distribution - Customer Installations	-	-	-	-	-	-	-	536,580
22	Distribution - Other Expenses	-	-	-	-	-	-	-	1,061,493
23	Distribution - Rents	-	-	-	-	-	-	-	44,510
24	Distribution - Maint. Super'n & Eng.	-	-	-	-	-	-	-	241,812
25	Distribution - Maintenance of Mains	-	-	-	-	-	-	-	1,054,524
26	Distribution - Maint. M & R Stat. Equip. - Gen.	-	-	-	-	-	-	-	25,604
27	Distribution - Maint. M & R Stat. Equip. - Ind.	-	-	-	-	-	-	-	2,071
28	Distribution - Maint. M & R Equip. - City Gate	-	-	-	-	-	-	-	849
29	Distribution - Maintenance of Services	-	-	-	-	-	-	-	462,837
30	Distribution - Maint. of Meters and Reg.	-	-	-	-	-	-	-	166,649
31	Distribution - Maintenance of Other Equip.	-	-	-	-	-	-	-	96,657
32	Customer Account - Supervision	-	-	-	-	-	-	-	73,894
33	Customer Account - Meter Reading	-	-	-	-	-	-	-	715,238
34	Customer Account - Records and Collection	-	-	-	-	-	-	-	4,749,714
	Customer Account - Uncollectibles	-	(95,583)	-	-	-	-	-	627,051

SUMMARY OF OPERATING INCOME ADJUSTMENT - CONT'D
TEST YEAR AS FILED AND ADJUSTED

LINE NO.	DESCRIPTION	(Q) ADJ. NO. 16 CORP. COST ALLOCATION	(R) ADJ. NO. 17 UNCOL'TIBLES	(S) ADJ. NO. 18 CWIP PROP. TAXES	(T) ADJ. NO. 19 OUT OF PERIOD EXPENSES	(U) ADJ. NO. 20 LEGAL EXPENSE	(V) ADJ. NO. 21	(W) ADJ. NO. 22 INCOME TAX	(X) RUCO AS ADJUSTED
Continued									
35	Customer Account - Miscellaneous	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 34,372
36	Customer Account - Superv'n - Cust. Service	-	-	-	-	-	-	-	14,677
37	Customer Account - Assistance	-	-	-	-	-	-	-	(34,298)
38	Customer Account - Info and Instruct. Advert.	-	-	-	-	-	-	-	65,791
39	Customer Account - Miscellaneous	-	-	-	-	-	-	-	22,602
40	Sales - Demonstrating and Selling	-	-	-	-	-	-	-	558
41	A & G - Salaries	-	-	-	-	-	-	-	1,409,672
42	A & G - Office Supplies and Expenses	-	-	-	-	-	-	-	1,236,177
43	A & G - Transferred - Credit	-	-	-	-	-	-	-	(152,950)
44	A & G - Outside Services Employed	-	-	-	-	(311,051)	-	-	2,368,183
45	A & G - Property Insurance	-	-	-	-	-	-	-	6,086
46	A & G - Injuries and Damages	-	-	-	-	-	-	-	539,598
47	A & G - Employee Pension and Benefits	-	-	-	-	-	-	-	2,209,189
48	A & G - Miscellaneous General Expenses	(12,765)	-	-	(21,120)	-	-	-	970,444
49	A & G - Rents	-	-	-	-	-	-	-	109,053
50	A & G - Maintenance of General Plant	-	-	-	-	-	-	-	169,706
51	A & G - Rate Case Expense	-	-	-	-	-	-	-	83,667
52	Interest On Customer Deposits	-	-	-	-	-	-	-	170,459
53	Other Oper. and Maint. Expense	\$ (12,765)	\$ (95,583)	\$ -	\$ (21,120)	\$ (311,051)	\$ -	\$ -	\$ 22,401,857
54	Dep. & Amort. - Citizens Acq. Discount	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	(729,791)
55	Dep. & Amort. - Intangible Plant	-	-	-	-	-	-	-	872,261
56	Dep. & Amort. - Transmission Plant	-	-	-	-	-	-	-	(15,454)
57	Dep. & Amort. - Distribution Plant	-	-	-	-	-	-	-	5,203,389
58	Dep. & Amort. - General Plant	-	-	-	-	-	-	-	1,243,507
59	Depreciation and Amortization	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 6,573,912
60	Property Tax	\$ -	\$ -	\$ (166,884)	\$ -	\$ -	\$ -	\$ -	\$ 3,598,743
61	Payroll Tax - FUTA, SUTA, FICA & Medicare	-	-	-	-	-	-	-	517,024
62	Medical and Dental	-	-	-	-	-	-	-	86,130
63	Other	-	-	-	-	(622,102)	-	-	(619,391)
64	Taxes Other Than Income Taxes	\$ -	\$ -	\$ (166,884)	\$ -	\$ (622,102)	\$ -	\$ -	\$ 3,582,506
65	Income Taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,830,390	\$ 3,805,887
66	Total Operating Expense	\$ (12,765)	\$ (95,583)	\$ (166,884)	\$ (21,120)	\$ (933,153)	\$ -	\$ 1,830,390	\$ 36,719,436
67	Operating Income	\$ 12,765	\$ 95,583	\$ 166,884	\$ 21,120	\$ 933,153	\$ -	\$ (1,830,390)	\$ 10,580,998

OPERATING INCOME ADJUSTMENT NO. 3
TEST-YEAR DEPRECIATION EXPENSE ON GROSS PLANT IN SERVICE

LINE NO.	ACCT. NO.		(A) RUCO TOTAL PLANT AS ADJUSTED	(B) CO. PROPOSED DEPRECIATION RATE	(C) TEST YEAR DEPRECIATION EXPENSE
		Intangible:			
1	302	Franchises & Consents	\$ 388,336	3.95%	\$ 15,339
2	303	Miscellaneous Intangible	278,208	5.84%	16,247
3		Total Intangible Plant	<u>\$ 666,544</u>		<u>\$ 31,587</u>
4		Company As Filed (Company Workpapers)			88,927
5		Difference (Line 4 - Line 3)			<u>\$ (57,341)</u>
6		RUCO Adjustment To Depreciation Expense - Intangibles (Line 5) (See RLM-7, Page 2, Column (D))			<u>\$ (57,341)</u>
		Transmission :			
7	365	Land & Rights	\$ 57,047	1.38%	\$ 787
8	366	Structures & Improvements	173	1.55%	3
9	367	Mains	\$ 17,776,724	1.53%	271,984
10	369	Measuring And Reg. Equipment	708,968	1.54%	10,918
11	371	Other Equipment	(4,929)	2.49%	(123)
12		Total Transmission Plant	<u>\$ 18,537,982</u>		<u>\$ 283,569</u>
13		Company As Filed (Company Workpapers)			285,187
14		Difference (Line 13 - Line 12)			<u>\$ (1,618)</u>
15		RUCO Adjustment To Depreciation Expense - Transmission (Line 14) (See RLM-7, Page 2, Column (D))			<u>\$ (1,618)</u>
		Distribution:			
16	374	Land & Rights	\$ 122,018	0.93%	\$ 1,135
17	375	Structures & Improvements	9,258	1.93%	179
18	376	Mains	130,369,008	2.07%	2,698,638
19	378	Meas. And Reg. Equip. - General	1,974,545	2.97%	58,644
20	379	Meas. And Reg. Equip. - City Gate	2,196,467	2.36%	51,837
21	380	Services	65,723,278	2.82%	1,853,396
22	381	Meters	11,940,511	2.02%	241,198
23	382	Meter Installation	5,707,065	2.36%	134,687
24	383	Regulators	2,903,996	2.56%	74,342
25	384	Regulator Installation	849,725	2.80%	23,792
26	385	Industrial Measuring Equipment	1,151,303	2.70%	31,085
27	387	Other Equipment	1,144,688	3.01%	34,455
28		Total Distribution Plant	<u>\$ 224,091,863</u>		<u>\$ 5,203,389</u>
29		Company As Filed (Company Workpapers)			5,631,142
30		Difference (Line 29 - Line 28)			<u>\$ (427,753)</u>
31		RUCO Adjustment To Depreciation Expense - Distribution (Line 30)(See RLM-7, Page 2, Column (D))			<u>\$ (427,753)</u>
		General:			
32	389	Land & Rights	\$ 721,923	4.93%	\$ 35,591
33	390	Structures & Improvements	5,121,466	4.93%	252,488
34	391	Office Furniture & Equipment	9,770,346	4.89%	477,770
35	392	Transportation Equipment	5,267,360	4.24%	223,336
36	393	Stores Equipment	119,781	14.71%	17,620
37	394	Tools, Shop And Garage Equip.	1,972,088	3.03%	59,754
38	395	Laboratory Equipment	654,368	3.64%	23,819
39	396	Power Operated Equipment	499,123	9.29%	46,369
40	397	Communication Equipment	1,034,320	10.49%	108,500
41	398	Miscellaneous Equipment	285,357	6.11%	17,435
42	399	Other Tangible Property	104,680	4.01%	4,198
43		Total General Plant	<u>\$ 25,550,811</u>		<u>\$ 1,266,880</u>
44		Company As Filed (Company Workpapers)			1,104,251
45		Difference (Line 44 - Line 43)			<u>\$ 162,629</u>
46		RUCO Adjustment To Depreciation Expense - General (Line 45) (See RLM-7, Page 2, Column (D))			<u>\$ 162,629</u>
44		TOTAL ADJUSTMENT			<u>\$ (324,083)</u>

**OPERATING INCOME ADJUSTMENT NO. 4
NORMALIZATION OF POSTAGE EXPENSES**

			(A)
LINE NO.	DESCRIPTION	REFERENCE	POSTAGE
1	Actual Test-Year Costs	Company Workpapers	\$ 367,603
2	Actual Number Of Test-Year Customer Bills	Company Schedule H-2	1,632,576
3	Cost Per Customer Bill	Line 1 / Line 2	\$ 0.2252
4	RUCO Annualized Number Of Test-Year Customer Bills	RLM-15, Column (C)	1,669,426
5	RUCO Adjusted Cost	Line 3 X Line 4	\$ 375,901
6	Postage Increase		5.00%
7	RUCO Adjusted Cost		\$ 394,696
8	Company As Filed	Company Workpapers	\$ 529,380
9	Difference	Line 7 - Line 8	\$ (153,479)
10	RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (E))	Line 9	<u>\$ (153,479)</u>

**OPERATING INCOME ADJUSTMENT NO. 5
CUSTOMER SERVICE COST ALLOCATION**

LINE NO.	ACCT NO.	ACCOUNT DESCRIPTION	(A) COMPANY AS FILED	(B) ALLOCATION FACTOR	(C) RUCO AS ADJUSTED	(D) RUCO ADJUSTMENT
1	403	Depreciation Expense	\$ 30,202	3.23%	\$ 6,830	\$ (23,373)
2	408	Taxes Other Than Income Tax	33,577	3.59%	7,593	(25,984)
3	903	Customer Records & Collection Expenses	633,713	67.71%	143,300	(490,413)
4	920	A & G - Salaries	32,869	3.51%	7,433	(25,437)
5	921	Office Supplies & Expenses	14,416	1.54%	3,260	(11,157)
6	922	Administrative Expenses Transferred	172	0.02%	39	(133)
7	923	Outside Services	3,307	0.35%	748	(2,559)
8	924	Property Insurance	1,717	0.18%	388	(1,329)
9	925	Injuries & Damages	379	0.04%	86	(293)
10	926	Pensions & Benefits	185,531	19.82%	41,954	(143,577)
11	408	Co. Wp's "Property Tax" page 2, As Per Note				(2,455)
12		TOTAL	<u>\$ 935,884</u>	<u>100.00%</u>	<u>\$ 211,629</u>	<u>\$ (726,710)</u>
13		RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (F) For Distribution)				<u>\$ (726,710)</u>

NOTE:

RUCO Calculated The Annual Customer Service Costs Of \$211,629 By Multiplying the Company's Four-Month Test-Year Expenses As Stated In Its Response To RUCO Data Request 6.13 Of \$70,543 By 3 To Equal \$211,629 Annually (See Column (C), Line 11)

References:

Column (A): Company Workpapers
Column (B): Individual Account Allocation Based On Percentage Of Each Account To Total
Column (C): RUCO Adjusted Customer Service Cost Allocated By Allocation Factors In Column (B)
Column (D): Column (C) - (A)

OPERATING INCOME ADJUSTMENT NO. 6
RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES

LINE NO.	DESCRIPTION	REFERENCE	(A)
			AMOUNT
	Expenses Removed		
1	Account 874 - Distribution Expense - Mains & Services:	Co. Response To STAFF Data Request 5.58	\$ (1,592)
2	Account 880 - Distribution Expense - Other:	RUCO Workpapers - "WP RLM-11-880 (1 - 4)"	(27,217)
3	Account 921 - A & G Expense - Office Supplies:	RUCO Workpapers - "WP RLM-11-921 (1 - 16)"	(107,076)
4	Account 923 - A & G Expense - Outside Services Employed:	RUCO Workpapers - "WP RLM-11-923 (1 - 2)"	(14,738)
5	Account 926 - A & G Expense - Pension & Benefits	RUCO Workpapers - "WP RLM-11-926 (1)"	(6,230)
6	Account 930 - A & G Expense - Miscellaneous General Expenses:	RUCO Workpapers - "WP RLM-11-930 (1 - 5)"	(76,494)
7	Total Expenses Removed	Sum Of Lines 1 Thru 6	<u>\$ (233,347)</u>
8	RUCO Adjustment (See RLM-7, Pages 1 & 2, Column (G) For Distribution)	Line 7	<u>\$ (233,347)</u>

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 880

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1	JUN-05	7 ELEVEN 18383		\$ 6.06
2	APR-05	ABC BUFFET		18.50
3	SEP-05	ALBERTSONS #953 S9H		12.21
4	MAY-05	ALL STAR SPORTS CENTER		77.85
5	JUN-05	ANNIE S GIFT SHOP & TE		26.28
6	APR-05	APPLEBEES #511		12.22
7	JUN-05	APPLEBEES #511		29.84
8	AUG-05	APPLEBEES #511		551.40
9	SEP-05	APPLEBEES #511		85.69
10	OCT-05	APPLEBEE'S #513		40.33
11	DEC-05	APPLEBEE'S #516		14.11
12	MAY-05	ARIZONA DAILY SUN-CLAS		153.00
13	JUN-05	ARIZONA DAILY SUN-CLAS		425.19
14	AUG-05	AUDIO ADVANTAG00018424		129.71
15	NOV-05	AUDIO ADVANTAG00018424		18.44
16	DEC-05	AUDIO ADVANTAG00018424		43.23
17	APR-05	AZ REPUBLIC SUBSCRIPTI		156.00
18	OCT-05	BARNES & NOBLE #2102		62.79
19	DEC-05	BASHA S 18 SYW		18.01
20	APR-05	BASHAS 91 SYW		6.64
21	NOV-05	BEST WESTERN HOTELS		349.08
22	SEP-05	BGI-BUDGET RAC-RYDER T		159.08
23	FEB-05	BIFF'S BAGELS, INC		13.85
24	NOV-05	BIG APPLE GOODYEAR		31.40
25	MAY-05	BIG FOOT BARBEQUE		20.90
26	FEB-05	BIG JOHNS STEAK & PUB		16.26
27	JUL-05	BLACK BEAR DINER N		20.52
28	MAY-05	BLUE HILLS MARKET SPRI		38.00
29	FEB-05	BURGER KING #8615		5.37
30	JAN-05	CABLE ONE *		80.95
31	FEB-05	CABLE ONE *		80.95
32	MAR-05	CABLE ONE *		80.95
33	APR-05	CABLE ONE *		80.95
34	MAY-05	CABLE ONE *		80.95
35	JUN-05	CABLE ONE *		80.95
36	JUL-05	CABLE ONE *		80.95
37	AUG-05	CABLE ONE *		41.20
38	SEP-05	CABLE ONE *		125.85
39	OCT-05	CABLE ONE *		80.95
40	NOV-05	CABLE ONE *		80.95
41	DEC-05	CAFE DE MANUEL		12.52
42	NOV-05	CAPPELLOS ITALIAN		30.00
43	NOV-05	CARL'S JR #75100175Q58		11.46
44	OCT-05	CARTERS TRVL C00781Q65		10.00
45	NOV-05	CARTERS TRVL C00781Q65		39.49
46	MAR-05	CASA BONITA II		34.74
47	MAR-05	CHARIOT PIZZA		16.42
48	MAY-05	CHIL'S GRI04600010462		15.09
49	DEC-05	CHIL'S GRI04600010462		20.23
50	AUG-05	CHIL'S GRI41600004168		75.78
51	APR-05	CHINA BUFFET		12.85
52	MAY-05	CHINA BUFFET		19.67
53	FEB-05	CHIPOTLE MEXICAN #0085		31.47
54	JUL-05	CIRCLE K 00226		7.67
55	AUG-05	CIRCLE K 00226		8.80
56	FEB-05	CIRCLE K 00701		11.53
57	FEB-05	CIRCLE K 00817		14.54
58	OCT-05	CIRCLE K 01840		36.41
59	JUN-05	CIRCLE K 02907		7.44
60	DEC-05	CORRAL WEST #15		43.13
61	MAY-05	CORRAL WEST #31		64.68
62	OCT-05	CORRAL WEST #31		43.03
63	APR-05	CORRAL WEST #62		193.40
64	FEB-05	COUNTRY KITCHEN		11.82
65	MAR-05	COWBOY COOKIN		32.64
66	SEP-05	CRYSTAL CREEK SANDWICH		8.20
67	JAN-05	CUSTERS COWBOY CAFE		9.95
68	DEC-05	DAYS INN		53.70
69	JUL-05	DAYS INNS		177.86
70	MAY-05	DENNY'S 00265454		13.42
71	OCT-05	DENNY'S #6671 Q67		13.59
72	JUN-05	DENNY'S #7297 Q67		12.55
73	JUN-05	DENNY'S INC Q67		12.46
74	OCT-05	DENNY'S INC Q67		33.92
75	JUN-05	DIAMOND 1616 SHAMROCK		2.98
76	AUG-05	D'LANO'S ITALIAN RESTA		19.96
77	OCT-05	D'LANO'S ITALIAN RESTA		125.00
78	MAY-05	DOUBLETREE HOTELS REID		194.16
79	NOV-05	EDGEWATER HOTEL F/B		41.84
80	JAN-05	EL CHAPARRAL		36.85
81	JAN-05	EL MARCOS BAR & GRILL		81.69

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 880

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
82	APR-05	ENTERPRISE RENT-A-CAR		\$ 79.16
83	APR-05	FAZOLIS RESTAURANT NO		6.15
84	FEB-05	FRYS-FOOD-DRG #104 SXN		7.66
85	MAR-05	FRYS-FOOD-DRG #104 SXN		17.89
86	JUN-05	FRYS-FOOD-DRG #104 SXN		21.58
87	JUN-05	FRYS-FOOD-DRG #116 SXN		181.79
88	AUG-05	GARCIA'S MEXICA00700021		25.76
89	SEP-05	GOLDEN CORRAL 29724Q15		52.29
90	NOV-05	GOLDEN NUGGET-RIVER CA		20.78
91	MAY-05	GURLEY STREET GRILL		49.48
92	FEB-05	HAMPTON INN HAVASU 51		229.47
93	OCT-05	HIROS SUSHI BAR & REST		23.71
94	SEP-05	HOLIDAY INN EXPRESS		111.54
95	OCT-05	HOLIDAY INN EXPRESS		166.02
96	DEC-05	HOLIDAY INN TUCSON		286.05
97	FEB-05	HOLIDAY INN-AIRPORT		195.66
98	MAR-05	HOLIDAY INN-AIRPORT		99.83
99	MAY-05	HOLIDAY INN-AIRPORT		181.96
100	JUN-05	HOLIDAY INN-AIRPORT		365.12
101	JAN-05	HOLIDAY INNS		123.03
102	SEP-05	HOLIDAY INNS		170.32
103	NOV-05	HOLIDAY INNS		86.39
104	JAN-05	HOLIDAY INNS EXPRESS		268.56
105	MAR-05	HOLIDAY INNS EXPRESS		85.73
106	MAY-05	HOLIDAY INNS EXPRESS		88.92
107	NOV-05	HOLIDAY INNS EXPRESS		1,181.82
108	NOV-05	HOMETOWN BUFFE00103291		22.54
109	FEB-05	HOUSE OF BREAD		26.00
110	APR-05	HOWARD JOHNSON EXPRESS		387.40
111	JAN-05	HUNAN WEST		17.49
112	MAR-05	IHOP #1524 21815246		10.57
113	MAY-05	JACK INTHE BOX05615Q43		7.14
114	JAN-05	JACK INTHE BOX06911Q43		14.47
115	JAN-05	JB'S RESTAURANT 11		25.85
116	FEB-05	KACHINA DOWNTOWN		147.52
117	JUN-05	KACHINA DOWNTOWN		35.18
118	SEP-05	KACHINIA DOWNTOWN		31.71
119	NOV-05	KFC #6		15.62
120	AUG-05	KINGMAN DELI, THE		359.86
121	DEC-05	KMART 00037077		202.21
122	DEC-05	KMART 00048801		13.67
123	JAN-05	LA CABANA		13.85
124	FEB-05	LA CASITA CAFE		24.00
125	APR-05	LAQUINTA_FLAGSTAFF PAA		73.34
126	NOV-05	LAS VIGAS STEAK RANCH		37.57
127	SEP-05	LICANO'S MEXICAN F		12.32
128	SEP-05	LODGE ON ROUTE 66		137.88
129	OCT-05	LODGE ON ROUTE 66		551.52
130	SEP-05	LOTUS GARDEN CHINESE R		21.20
131	DEC-05	LOVE S COUNTRY00002Q01		31.80
132	JUN-05	MAGPIES GOURMET PIZZA		14.03
133	FEB-05	MALONES BAKERY & D		17.90
134	MAR-05	MARTIN'S ON SCOTT		14.74
135	SEP-05	MCDONALD'S F25162 Q17		4.31
136	DEC-05	MI NIDITO		30.00
137	NOV-05	MICHAELS #2747		35.58
138	FEB-05	NILES RADIO		102.84
139	MAR-05	NILES RADIO		117.97
140	APR-05	NILES RADIO		187.72
141	MAY-05	NILES RADIO		933.01
142	JUN-05	NILES RADIO		67.49
143	JUL-05	NILES RADIO		65.00
144	AUG-05	NILES RADIO		54.36
145	SEP-05	NILES RADIO		78.53
146	OCT-05	NILES RADIO		149.21
147	NOV-05	NILES RADIO		149.34
148	DEC-05	NILES RADIO		94.38
149	FEB-05	OREGANOS		44.30
150	SEP-05	ORIENTAL TRADING CO		159.20
151	OCT-05	OSCO DRUG #9343		10.78
152	FEB-05	OUR DAILY BREAD DELI		95.31
153	APR-05	OUTBACK #0317		43.13
154	JAN-05	OUTBACK #0319		54.99
155	JUN-05	PANCHO'S #075		15.74
156	MAR-05	PANDA EXPRESS 00008Q42		16.15
157	DEC-05	PAPA JOHNS #2844		7.58
158	MAR-05	PAPPADEAUX SEAFOOD KIT		33.10
159	SEP-05	PAYPAL *IRWAKACHINA		285.00
160	APR-05	PINE COUNTRY RESTA		8.05
161	OCT-05	PINE COUNTRY RESTAURAN		52.97
162	APR-05	PIZZA FACTORY		19.05
163	MAY-05	PIZZA FACTORY		18.10
164	SEP-05	PIZZA FACTORY		69.70

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 880

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
165	NOV-05	PIZZA H006705 16800Q34		\$ 28.04
166	APR-05	PIZZA H010725 17500Q34		55.07
167	JUN-05	PIZZA HUT #10657500Q34		24.67
168	APR-05	PIZZA HUT #22 55700Q34		17.15
169	SEP-05	PIZZA HUT #22 55700Q34		15.40
170	JUN-05	PRESCOTT FRONTIER DAYS		350.00
171	SEP-05	PRETTY PARTY PLACE PR		22.06
172	JUL-05	QUALITY INNS LAS CAMPA		66.32
173	AUG-05	QUALITY INNS LAS CAMPA		480.80
174	JUN-05	QUIK MART #33		3.45
175	AUG-05	R & R PIZZA EXPRESS		17.99
176	SEP-05	RA SUSHI #0655		59.65
177	JAN-05	RADIO SHACK		21.66
178	APR-05	RADIO SHACK		43.13
179	MAR-05	RADIO SHACK 00134718		27.02
180	MAY-05	RADIO SHACK 00134718		51.32
181	MAY-05	RADIO SHACK 00139303		32.55
182	JUL-05	RADIO SHACK DEA01902659		6.02
183	SEP-05	RADIO SHACK DEA01902659		32.33
184	OCT-05	RADISSON HOTELS-WOODLA		50.35
185	NOV-05	RANGER RESOURCES		392.08
186	AUG-05	RASKIN JEWELERS LT		8.67
187	OCT-05	RED LOBSTER US00008458		54.32
188	MAY-05	RED ROBIN NO 309		13.52
189	OCT-05	RENTS AND TENTS		35.57
190	MAR-05	RODEO VIDEO		30.00
191	OCT-05	RODS STEAK HOUSE		47.68
192	SEP-05	RON'S MARKET SIH		8.91
193	MAY-05	ROSA'S CANTINA		23.76
194	JUN-05	ROSA'S MEXICAN FOOD		17.08
195	AUG-05	SAFEWAY STORE00002394		11.68
196	FEB-05	SAFEWAY STORE00017335		9.48
197	SEP-05	SAFEWAY STORE00017335		5.14
198	FEB-05	SAFEWAY STORE00020289		24.38
199	OCT-05	SAFEWAY STORE00020289		47.33
200	DEC-05	SAFEWAY STORE00020289		9.98
201	AUG-05	SAFEWAY STORE00020529		13.36
202	MAR-05	SCOTTYS BROASTED CHICK		53.83
203	APR-05	SEARS DEALER 3089		288.82
204	MAR-05	SEARS ROEBUCK 2218		153.84
205	NOV-05	SEARS ROEBUCK 2218		65.00
206	NOV-05	SHOWLOW #40		6.78
207	DEC-05	SILVER SADDLE STEAKHOU		21.41
208	MAY-05	SONIC #1077 Q63		6.59
209	AUG-05	SONIC #3385 Q63		44.59
210	NOV-05	SONIC DRIVE IN #483Q63		21.93
211	MAY-05	SOTO'S P/K OUTPOST		78.22
212	JAN-05	SOUPER SALAD #152		15.99
213	JUN-05	STREETS OF NEW YORK #1		24.41
214	AUG-05	STROMBOLLIS RESTAURANT		54.86
215	FEB-05	SU CASA OF CLARKDALE		10.53
216	MAY-05	SUBWAY 16276		26.11
217	AUG-05	SUBWAY 21530 Q16		8.36
218	MAY-05	SUBWAY 2296 Q16		11.99
219	AUG-05	SUBWAY 27912 Q16		18.48
220	NOV-05	SWEET & SUBS		19.68

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 880

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
221	MAY-05	SZECHUAN RESTAURANT		\$ 8.10
222	SEP-05	SZECHUAN RESTAURANT		84.00
223	SEP-05	TEMPE 00001701		71.38
224	SEP-05	TEMPE HOOTERS INC		31.70
225	SEP-05	TEMPE MISSION PALMS HO		220.70
226	OCT-05	TEXAS ROADHOUSE #2204		53.52
227	JUL-05	THE CARPET WORKS I		14.15
228	MAY-05	THE COPPER PLATE		15.60
229	MAY-05	TOPOCK MARINA ON HISTO		24.90
230	MAY-05	VERDE LEA MARKET		13.94
231	JAN-05	WAL MART		10.69
232	OCT-05	WALGREEN 00025Q39		7.76
233	NOV-05	WALGREEN 00025Q39		11.46
234	JUL-05	WALGREEN 00052Q39		22.70
235	NOV-05	WALGREEN 00052Q39		4.51
236	JUN-05	WALGREEN 00055Q39		7.14
237	JUN-05	WAL-MART #1230 SE2		8.29
238	JUL-05	WAL-MART #1299 SE2		18.77
239	NOV-05	WAL-MART #1299 SE2		5.38
240	JUN-05	WAL-MART #1328		20.67
241	JUL-05	WAL-MART #1328		9.69
242	MAY-05	WAL-MART #1417 SE2		6.75
243	NOV-05	WAL-MART #1417 SE2		107.44
244	JUL-05	WAL-MART #2051 SE2		14.97
245	DEC-05	WAL-MART #2051 SE2		73.84
246	SEP-05	WAL-MART #5303 SE2		22.59
247	OCT-05	WAL-MART #5303 SE2		42.25
248	DEC-05	WAL-MART #5303 SE2		21.11
249	MAR-05	WAL-MART STORES, INC		29.95
250	NOV-05	WENDYS		10.51
251	DEC-05	WENDYS NO 413 Q50		4.21
252	SEP-05	WEST SIDE INN		15.70
253	JUL-05	WESTSIDE LILO'S CA		18.52
254	AUG-05	WESTSIDE LILO'S CA		15.00
255	OCT-05	WESTSIDE LILO'S CA		9.64
256	MAY-05	WHATABURGER #775		5.65
257	OCT-05	WHATABURGER 775 Q26		12.95
258	JUN-05	WIENERSCHNITZEL #692		4.38
259	MAR-05	WM SUPERCENTER SE2		14.02
260	APR-05	WM SUPERCENTER SE2		60.43
261	MAY-05	WM SUPERCENTER SE2		32.49
262	JUN-05	WM SUPERCENTER SE2		17.71
263	JUL-05	WM SUPERCENTER SE2		58.71
264	SEP-05	WM SUPERCENTER SE2		55.56
265	NOV-05	WM SUPERCENTER SE2		132.27
266	DEC-05	WOODLANDS PLAZA HOTEL		616.01
267	MAY-05	ZEKE'S EATIN PLACE		38.80
268	FEB-05	IBEW LOCAL #1116	021805 18675	186.75
269	APR-05	JACK POTS PORTABLES INC	12927	65.00
270	NOV-05	NAU ATHLETICS	110805 15000	150.00
271	NOV-05	NAU ATHLETICS	110805 15000A	150.00
272	JAN-05	NILES RADIO	230899	555.00
273	FEB-05	NILES RADIO	231185	555.00
274	MAR-05	NILES RADIO	231456	555.00
275	MAY-05	NILES RADIO	231731	555.00
276	AUG-05	NILES RADIO	232059a	555.00
277	MAY-05	NILES RADIO	232059A	555.00
278	JUN-05	NILES RADIO	232313	555.00
279	JUL-05	NILES RADIO	232691	555.00
280	AUG-05	NILES RADIO	232965	165.00
281	AUG-05	NILES RADIO	233059	555.00
282	SEP-05	NILES RADIO	233338	555.00
283	OCT-05	NILES RADIO	233595	555.00
284	DEC-05	NILES RADIO	234124	555.00
285	MAY-05	NILES RADIO	423902	20.54
286	NOV-05	NILES RADIO	425727	113.53
287	NOV-05	PETTY CASH	RPC-ADAMS30614	27.75
288	AUG-05	PETTY CASH	RPC27987ADAMS	5.50
289	TOTAL			\$ 27,217.36

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1	JAN-05	3 MARGARITAS CASA BONI		\$ 21.04
2	FEB-05	3 MARGARITAS CASA BONI		28.38
3	OCT-05	3 MARGARITAS CASA BONI		70.87
4	NOV-05	3 MARGARITAS CASA BONI		94.54
5	JUL-05	ABC BUFFET		12.40
6	AUG-05	AGNT FEE 89050521279672		28.00
7	FEB-05	AIR FARE		8.05
8	APR-05	AIR FARE		7.70
9	OCT-05	AIR FARE		18.47
10	JAN-05	ALBERTSONS #1027 S9H		4.48
11	JAN-05	ALBERTSONS #953 S9H		23.08
12	APR-05	ALBERTSONS #953 S9H		70.07
13	JUN-05	ALBERTSONS #953 S9H		38.92
14	JUL-05	ALBERTSONS #953 S9H		19.64
15	AUG-05	ALBERTSONS #953 S9H		49.14
16	OCT-05	ALBERTSONS #953 S9H		25.19
17	AUG-05	ALBERTSONS #965 S9H		13.93
18	MAY-05	ALBERTSONS #967 S9H		24.73
19	OCT-05	ALBERTSONS #967 S9H		32.28
20	NOV-05	ALBERTSONS #967 S9H		22.16
21	FEB-05	ALFONSO S MEXICAN FOOD		19.03
22	MAR-05	ALFONSO S MEXICAN FOOD		40.68
23	APR-05	ALFONSO S MEXICAN FOOD		118.48
24	JUL-05	ALFONSO'S MEXICAN FQ01		14.91
25	AUG-05	ALFONSO'S MEXICAN FQ01		31.16
26	OCT-05	ALFONSO'S MEXICAN FQ01		65.74
27	DEC-05	ALTITUDES BAR AND		26.76
28	SEP-05	AM CANCER SOC - SS		35.00
29	FEB-05	AMERICAN 00106191484482		175.00
30	AUG-05	AMERICAN 00113184653293		326.80
31	MAR-05	AMERICANA MOTOR HOTEL		18.00
32	JUN-05	AMERICAW 40121675337133		271.30
33	JUL-05	AMERICAW 40121692035854		277.30
34	DEC-05	AMERICAW 40121734713185		737.30
35	OCT-05	AMERISUITES - FF		59.46
36	NOV-05	AMERISUITES - FF		59.46
37	DEC-05	AMERISUITES - FF		59.46
38	FEB-05	ANGIES FLOWERS		28.68
39	JAN-05	APPLEBEES #511		189.12
40	APR-05	APPLEBEES #511		23.34
41	NOV-05	APPLEBEES #511		120.52
42	JUN-05	ARABIAN CAMPER&TRAILER		286.54
43	JAN-05	ARBY'S #1180 Q52		10.76
44	FEB-05	ARBY'S #1180 Q52		17.63
45	MAR-05	ARBY'S #1180 Q52		44.65
46	MAY-05	ARBY'S #1180 Q52		34.11
47	JUN-05	ARBY'S #1180 Q52		12.49
48	JUN-05	ARBY'S #1246 Q52		14.18
49	JAN-05	ARBY'S #1997 Q52		14.02
50	MAR-05	ARBY'S #1997 Q52		9.98
51	JUN-05	ARBY'S #5581 Q52		8.35
52	JUL-05	ARBY'S #5581 Q52		12.35
53	SEP-05	ARBY'S #7077 Q52		6.79
54	OCT-05	ARBY'S #7077 Q52		7.12
55	DEC-05	ARBY'S #7077 Q52		6.37
56	MAR-05	ARBYS OF SHOW LOW		6.57
57	DEC-05	ARBYS OF SHOW LOW		6.04
58	JUN-05	ARIZONA FAMILY RESTAUR		28.08
59	AUG-05	ARIZONA FAMILY RESTAUR		9.53
60	FEB-05	AUGIES PLACE		36.93
61	JAN-05	BABE'S ROUND UP		4,014.47
62	AUG-05	BABE'S ROUND UP		20.12
63	DEC-05	BARNES & NOBLE #2102		138.96
64	JUN-05	BARRO S PIZZA		7.05
65	APR-05	BASHA S 18 SYW		56.90
66	MAY-05	BASHA S 18 SYW		3.56
67	OCT-05	BASHA S 18 SYW		14.00
68	DEC-05	BASHA S 18 SYW		4.99
69	MAR-05	BASHA S 30 SYW		9.98
70	MAY-05	BASHA S 30 SYW		9.98
71	OCT-05	BASHA S 57 SYW		6.74
72	JAN-05	BASHAS #116 SYW		40.26
73	JUN-05	BASHAS #116 SYW		9.85
74	MAR-05	BASHAS 37 SYW		8.16
75	APR-05	BASHAS 37 SYW		47.22
76	JUN-05	BASHAS 37 SYW		32.38
77	OCT-05	BASHAS 37 SYW		16.32
78	NOV-05	BASHAS 37 SYW		8.16
79	OCT-05	BASHAS 53 SYW		2.84
80	JUN-05	BASHAS 67 SYW		27.46
81	AUG-05	BAY BEACH CAFE		24.36
82	SEP-05	BEAVER STREET BREW		57.75
83	OCT-05	BEAVER STREET BREW		47.41

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
84	FEB-05	BEAVER STREET BREWERY		\$ 34.57
85	JUN-05	BEAVER STREET BREWERY		54.59
86	AUG-05	BEAVER STREET BREWERY		50.00
87	OCT-05	BELL CANYON HOOTERS IN		30.80
88	MAR-05	BELLA MIA RESTAURANT		21.21
89	AUG-05	BELLA MIA RESTAURANT		24.42
90	OCT-05	BEST WESTERN		74.48
91	AUG-05	BEST WESTERN BAYSIDE I		164.65
92	JAN-05	BEST WESTERN HOTELS		449.61
93	FEB-05	BEST WESTERN HOTELS		530.25
94	MAR-05	BEST WESTERN HOTELS		892.53
95	MAY-05	BEST WESTERN HOTELS		922.18
96	JUN-05	BEST WESTERN HOTELS		122.95
97	AUG-05	BEST WESTERN HOTELS		64.77
98	SEP-05	BEST WESTERN HOTELS		267.04
99	NOV-05	BEST WESTERN HOTELS		453.39
100	DEC-05	BEST WESTERN HOTELS		232.72
101	OCT-05	BEST WESTERN PRESCOTTO		17.05
102	MAR-05	BEST WESTERN SIESTA MT		225.78
103	NOV-05	BIFF'S BAGELS, INC		10.39
104	SEP-05	BIG 5 SPORTING #258		15.52
105	JAN-05	BIG DADDY'S PLACE		51.20
106	DEC-05	BIG LOTS #043000043059		48.39
107	DEC-05	BIGFOOT BARBECUE		400.96
108	JUL-05	BLACK BARTS STEAKHOUSE		43.09
109	JAN-05	BLACK BEAR DINER #40		28.07
110	AUG-05	BLACK BEAR DINER N		20.98
111	MAR-05	BLIMPIE SUBS & SALADS		5.79
112	JAN-05	BLUE MOON CAFE		20.58
113	JAN-05	BOARDWALK HOTEL - ADV		70.85
114	FEB-05	BOARDWALK HOTEL - ADV		(70.85)
115	JAN-05	BOB'S BIG BOY		34.48
116	JUL-05	BOWLINS PICACHO PEAK P		11.23
117	FEB-05	BRANDING IRON STKHSE		64.69
118	MAR-05	BRANDING IRON STKHSE		25.50
119	APR-05	BRANDING IRON STKHSE		76.38
120	MAY-05	BRANDING IRON STKHSE		50.88
121	JUN-05	BRANDING IRON STKHSE		46.11
122	JUL-05	BRANDING IRON STKHSE		21.34
123	AUG-05	BRANDING IRON STKHSE		33.00
124	OCT-05	BRANDING IRON STKHSE		139.24
125	NOV-05	BRANDING IRON STKHSE		36.00
126	JAN-05	BROOKLYN CAFE		96.69
127	JUN-05	BUFFALO WILD WINGS PRE		105.00
128	AUG-05	BUFFALO WILD WINGS PRE		25.00
129	APR-05	BUN HUGGERS EAST		96.46
130	MAY-05	BUN HUGGERS EAST		94.71
131	FEB-05	BUN HUGGERS WEST		80.01
132	MAR-05	BUN HUGGERS WEST		25.13
133	MAY-05	BUN HUGGERS WEST		15.58
134	JUN-05	BUN HUGGERS WEST		94.16
135	OCT-05	BUN HUGGERS WEST		108.20
136	NOV-05	BUN HUGGERS WEST		57.29
137	DEC-05	BUN HUGGERS WEST		71.00
138	NOV-05	BUNS N DOGS INC		98.79
139	MAY-05	BURGER KING #14442 Q07		30.24
140	MAY-05	BURGER KING #2305 Q07		4.95
141	APR-05	BURGER KING #4600		7.33
142	JUL-05	BURGER KING #4600 Q07		6.37
143	OCT-05	BURGER KING #6716 Q07		5.25
144	DEC-05	BURGER KING #6716 Q07		5.68
145	FEB-05	BUSTER S RESTAURANT		42.03
146	APR-05	BUSTER S RESTAURANT		22.67
147	MAY-05	BUSTER S RESTAURANT		97.07
148	JUN-05	BUSTER S RESTAURANT		53.58
149	JUL-05	BUSTER S RESTAURANT		188.13
150	AUG-05	BUSTER S RESTAURANT		41.13
151	SEP-05	BUSTER S RESTAURANT		122.32
152	APR-05	CACTUS JACK'S GRILL AN		46.56
153	NOV-05	CAFE DLANOS		17.38
154	DEC-05	CAFE DLANOS		31.95
155	FEB-05	CAFE D'LANOS		20.36
156	MAR-05	CAFE D'LANOS		90.93
157	APR-05	CAFE D'LANOS		75.65
158	MAY-05	CAFE D'LANOS		28.66
159	JUL-05	CAFE D'LANOS		69.82
160	SEP-05	CAFE D'LANOS		79.37
161	DEC-05	CAFE JOSE INC		18.38
162	JAN-05	CAFE 'N SALAD		68.79
163	SEP-05	CALICOS RESTAURANT		16.21
164	JAN-05	CANTON DRAGON		26.30
165	JUN-05	CANTON DRAGON		26.00
166	AUG-05	CARAMBA #2		10.47

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
167	NOV-05	CARL'S JR #75100175Q58		\$ 12.00
168	MAY-05	CARLS JR 827		12.25
169	JUN-05	CASA BLANCA CAFE		50.84
170	JUL-05	CASA BLANCA CAFE		23.13
171	FEB-05	CASA BONITA II		51.85
172	MAR-05	CASA BONITA II		57.37
173	APR-05	CASA BONITA II		177.90
174	JUN-05	CASA BONITA II		63.17
175	JUL-05	CASA BONITA II		171.52
176	AUG-05	CASA BONITA II		39.27
177	APR-05	CASA CARDENAS		92.13
178	MAY-05	CASA CARDENAS		55.79
179	JUL-05	CASA DEL FOOD SERVICES		4.72
180	MAY-05	CASA GRANDE		116.88
181	JUN-05	CASA GRANDE		254.17
182	OCT-05	CASA GRANDE		43.97
183	FEB-05	CASA GRANDE RESTAURANT		47.57
184	APR-05	CASA SERRANO OF LAKE H		19.20
185	JUL-05	CASA SERRANO OF LAKE H		11.69
186	OCT-05	CASA SERRANO OF LAKE H		14.59
187	NOV-05	CASA SERRANO OF LAKE H		17.59
188	JAN-05	CATTLEMANS BAR & GRILL		27.00
189	FEB-05	CATTLEMANS BAR & GRILL		22.75
190	JUN-05	CATTLEMANS BAR & GRILL		48.75
191	SEP-05	CATTLEMANS BAR & GRILL		26.00
192	JAN-05	CHARLIE CLARKS RESTAUR		1,125.89
193	FEB-05	CHARLIE CLARKS RESTAUR		106.22
194	JUL-05	CHARLIE CLARKS RESTAUR		22.74
195	AUG-05	CHARLIE CLARKS RESTAUR		58.83
196	OCT-05	CHARLIE CLARKS RESTAUR		16.50
197	DEC-05	CHARLIE CLARKS RESTAUR		1,594.32
198	JUN-05	CHICO S TACOS		227.45
199	FEB-05	CHILI'S GRI04600010462		65.83
200	APR-05	CHILI'S GRI04600010462		88.30
201	MAY-05	CHILI'S GRI04600010462		53.35
202	JUN-05	CHILI'S GRI04600010462		48.89
203	JUL-05	CHILI'S GRI04600010462		162.30
204	AUG-05	CHILI'S GRI04600010462		111.14
205	OCT-05	CHILI'S GRI04600010462		17.00
206	NOV-05	CHILI'S GRI04600010462		87.57
207	DEC-05	CHILI'S GRI04600010462		24.94
208	MAR-05	CHILI'S GRI04900010496		18.00
209	JUN-05	CHILI'S GRI04900010496		45.43
210	JUL-05	CHILI'S GRI04900010496		35.96
211	OCT-05	CHILI'S GRI04900010496		35.48
212	NOV-05	CHILI'S GRI04900010496		22.38
213	AUG-05	CHILI'S GRI17000001701		55.43
214	JAN-05	CHILI'S GRI41600004168		135.69
215	FEB-05	CHILI'S GRI41600004168		84.85
216	MAR-05	CHILI'S GRI41600004168		62.43
217	APR-05	CHILI'S GRI41600004168		29.62
218	MAY-05	CHILI'S GRI41600004168		109.23
219	JUN-05	CHILI'S GRI41600004168		132.24
220	JUL-05	CHILI'S GRI41600004168		86.49
221	OCT-05	CHILI'S GRI41600004168		54.84
222	NOV-05	CHILI'S GRI41600004168		90.13
223	DEC-05	CHILI'S GRI41600004168		45.57
224	MAR-05	CHILI'S GRI56300005637		20.19
225	DEC-05	CHILI'S GRI56300005637		107.59
226	AUG-05	CHILI'S GRI77100007716		42.47
227	JUN-05	CHINA BUFFET		122.76
228	SEP-05	CHINA BUFFET		28.37
229	NOV-05	CHINA BUFFET		25.09
230	JAN-05	CHINA BUFFET - LH		12.79
231	MAR-05	CHINA BUFFET - LH		12.69
232	SEP-05	CHINA BUFFET - LH		11.79
233	FEB-05	CHINA STAR		6.92
234	MAR-05	CHINA STAR CHINESE RES		18.84
235	MAR-05	CHINA STAR SUPER BUFFE		7.58
236	OCT-05	CHINESE BAMBOO BUFFET		8.99
237	JAN-05	CHUYS MESQUITE BROILER		20.77
238	FEB-05	CHUYS MESQUITE BROILER		90.67
239	MAR-05	CHUYS MESQUITE BROILER		47.83
240	APR-05	CHUYS MESQUITE BROILER		66.65
241	MAY-05	CHUYS MESQUITE BROILER		76.56
242	JUN-05	CHUYS MESQUITE BROILER		26.90
243	FEB-05	CIRCLE K 00251		39.75
244	MAR-05	CIRCLE K 00251		10.89
245	MAY-05	CIRCLE K 00251		6.24
246	JUN-05	CIRCLE K 00251		6.24
247	MAR-05	CIRCLE K 01576		12.94
248	MAY-05	CIRCLE K 01576		19.48
249	JUN-05	CIRCLE K 01576		10.82

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
250	JUL-05	CIRCLE K 01576		\$ 3.30
251	JAN-05	CIRCLE K 05326		88.12
252	FEB-05	CIRCLE K 05326		82.28
253	MAR-05	CIRCLE K 05326		96.43
254	APR-05	CIRCLE K 05326		63.90
255	MAY-05	CIRCLE K 05326		25.38
256	FEB-05	CIRCLE K 06362		4.60
257	JUL-05	CIRCLE K 06665		6.08
258	APR-05	CIRCLE K 08692		6.95
259	OCT-05	CIRCLE K 08838		5.90
260	JUL-05	CLAIM JUMPER #25		39.48
261	AUG-05	CLARKDALE CLASSIC STAT		10.50
262	JAN-05	COCOS BAKERY RESTAURAN		13.34
263	AUG-05	COCOS BAKERY RESTAURAN		33.49
264	NOV-05	COCOS BAKERY RESTAURAN		43.21
265	JAN-05	CODE 7		18.64
266	FEB-05	CODE 7		34.15
267	JAN-05	COLD STONE CREAMERY #6		24.95
268	JAN-05	COMFORT INN		121.00
269	OCT-05	COMFORT INNS		222.18
270	JUN-05	CONFETTIS GIFT & PARTY		14.62
271	MAR-05	COPALA RESTAURANT		18.47
272	MAR-05	COW PALACE RESTAURANT		78.69
273	JUN-05	COWBOY CLUB		41.98
274	APR-05	COWBOY COOKIN		31.96
275	SEP-05	CRACKER BARREL #277		19.06
276	APR-05	CRACKER BARREL #297		26.82
277	FEB-05	CRACKER BARREL #334		20.70
278	NOV-05	CRACKER BARREL #334		10.95
279	OCT-05	CRACKER BARREL #388		9.54
280	FEB-05	CRACKER BARREL #416		19.69
281	JUL-05	CRACKER BARREL #416		13.08
282	NOV-05	CRACKER BARREL #416		84.70
283	DEC-05	CRACKER BARREL #416		28.97
284	OCT-05	CRACKER BARREL #555		13.21
285	OCT-05	CRAZY BILLS SALON & ST		46.00
286	JUN-05	CROWN CITY INN		150.66
287	AUG-05	CROWN CITY INN		635.62
288	FEB-05	DAMBAR & STEAK HOUSE		59.76
289	MAR-05	DAMBAR & STEAK HOUSE		128.07
290	MAY-05	DAMBAR & STEAK HOUSE		129.92
291	AUG-05	DAMBAR & STEAKHOUSE		57.51
292	OCT-05	DAMBAR & STEAKHOUSE		28.00
293	NOV-05	DAMBAR & STEAKHOUSE		417.61
294	DEC-05	DAMBAR & STEAKHOUSE		123.93
295	JAN-05	DANONE WATERS OF NORTH		18.56
296	FEB-05	DANONE WATERS OF NORTH		15.07
297	MAR-05	DANONE WATERS OF NORTH		23.99
298	MAY-05	DANONE WATERS OF NORTH		30.86
299	JUL-05	DANONE WATERS OF NORTH		37.72
300	SEP-05	DANONE WATERS OF NORTH		30.86
301	OCT-05	DANONE WATERS OF NORTH		29.17
302	NOV-05	DANONE WATERS OF NORTH		8.56
303	NOV-05	DARA THAI RESTAURANT		41.96
304	NOV-05	DENNY'S 00265454		13.51
305	JAN-05	DENNY'S 00267559		30.37
306	APR-05	DENNY'S 00267559		31.13
307	DEC-05	DENNY'S 00267559		12.92
308	JAN-05	DENNY'S #6741 Q67		8.44
309	APR-05	DENNY'S #6741 Q67		9.92
310	DEC-05	DENNY'S INC		17.49
311	JAN-05	DENNY'S INC Q67		16.68
312	APR-05	DENNY'S INC Q67		10.52
313	MAY-05	DENNY'S INC Q67		10.49
314	JUN-05	DENNY'S INC Q67		13.48
315	NOV-05	DESERT DIAMOND CASINO		17.70
316	FEB-05	DINER INC		30.00
317	JAN-05	D'LANO'S ITALIAN RESTA		27.72
318	JUN-05	D'LANO'S ITALIAN RESTA		50.75
319	JUL-05	D'LANO'S ITALIAN RESTA		19.65
320	NOV-05	D'LANO'S ITALIAN RESTA		282.00
321	OCT-05	DLX BUSINESS 800328030		33.06
322	JAN-05	DOMINO'S PIZZA		45.42
323	MAR-05	DOMINO'S PIZZA		37.86
324	APR-05	DOMINO'S PIZZA		118.68
325	MAR-05	DOMINO'S PIZZA #7625		20.94
326	JAN-05	DOREEN'S BACKSTREE		46.70
327	MAY-05	DOREEN'S BACKSTREE		26.78
328	OCT-05	DOUBLETREE HOTELS REID		95.91
329	NOV-05	DOWNTOWN DINER		17.00
330	MAR-05	DRY GULCH STEAKHOUSE		41.71

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
331	NOV-05	DTV*DIRECTV SERVICE		\$ 442.88
332	DEC-05	DUNTON HOUSE RESTA		8.30
333	APR-05	DYNASTY SUITES REDLAND		82.45
334	MAY-05	DYNASTY SUITES REDLAND		164.90
335	MAY-05	EASTERN CLASSIC RESTAU		19.55
336	JUN-05	EL CAPITAN FRESH MEXIC		35.18
337	AUG-05	EL CAPITAN FRESH MEXIC		68.81
338	OCT-05	EL CAPITAN FRESH MEXIC		74.26
339	DEC-05	EL CAPITAN FRESH MEXIC		20.57
340	FEB-05	EL CHAPARRAL		19.04
341	MAR-05	EL CHAPARRAL		24.25
342	APR-05	EL CHAPARRAL		8.75
343	APR-05	EL CHARRO CAFE		35.40
344	MAY-05	EL CHARRO CAFE		34.90
345	JUN-05	EL CHARRO CAFE		18.34
346	JUL-05	EL CHARRO CAFE		20.34
347	AUG-05	EL CHARRO CAFE		16.59
348	SEP-05	EL CHARRO CAFE		36.93
349	OCT-05	EL CHARRO CAFE		33.30
350	FEB-05	EL CHARRO RESTAURANT		20.53
351	APR-05	EL CHARRO RESTAURANT		46.63
352	OCT-05	EL CHARRO RESTAURANT		30.00
353	NOV-05	EL CHARRO RESTAURANT		21.69
354	OCT-05	EL MARCOS BAR & GRILL		41.12
355	MAR-05	EL MARIACHI		8.00
356	FEB-05	EL PALACIO OF KINGMAN		16.64
357	JUL-05	EL PALACIO OF KINGMAN		28.03
358	NOV-05	EL PALACIO OF KINGMAN		103.56
359	DEC-05	EL PALACIO OF KINGMAN		10.61
360	MAR-05	EL POLLO LOCO #3427		5.93
361	FEB-05	EL RANCHO		44.52
362	AUG-05	EL RANCHO		11.40
363	DEC-05	EL RANCHO		16.30
364	JUN-05	EL SARAPE MEXICAN REST		18.83
365	NOV-05	EL ZARAPE		5.07
366	JAN-05	ELKS LODGE #468		54.84
367	FEB-05	ELKS LODGE #468		151.25
368	MAR-05	ELKS LODGE #468		43.21
369	APR-05	ELKS LODGE #468		64.72
370	MAY-05	ELKS LODGE #468		157.85
371	JUN-05	ELKS LODGE #468		139.22
372	JUL-05	ELKS LODGE #468		26.08
373	OCT-05	ELKS LODGE #468		49.13
374	OCT-05	EMBASSY SUITES FLAGTIP		312.05
375	NOV-05	ENOTECA PIZZARIA WINE		13.83
376	DEC-05	ENTERPRISE RENT-A-CAR		127.57
377	NOV-05	EXQUISITO RESTAURANT		39.05
378	OCT-05	FAMOUS SAMS #10		21.22
379	JAN-05	FAMOUS SAMS #30		21.61
380	FEB-05	FAMOUS SAMS #30		19.25
381	FEB-05	FARR S SERVICE		26.50
382	FEB-05	FAZOLIS RESTAURANT NO		11.23
383	JUN-05	FAZOLIS RESTAURANT NO		7.55
384	AUG-05	FAZOLIS RESTAURANT NO		90.20
385	APR-05	FIESTA CHARRA INC		106.51
386	SEP-05	FIESTA CHARRA INC		30.66
387	OCT-05	FIESTA CHARRA INC		36.99
388	DEC-05	FIESTA CHARRA INC		32.02
389	FEB-05	FIESTA MEXICANA #7		18.59
390	APR-05	FIESTA MEXICANA #7		39.94
391	JUL-05	FIESTA MEXICANA #7		16.84
392	FEB-05	FLAGSTAFF CHAMBER OF C		300.00
393	FEB-05	FLAGSTAFF FAMILY YMCA		250.00
394	JAN-05	FLAMING WOK		8.63
395	APR-05	FLAMING WOK		15.10
396	DEC-05	FLAMINGO HILTON LASTIP		310.20
397	NOV-05	FLAMINGO HILTON LV TIP		125.35
398	APR-05	FLOWERS BY DOROTHY		37.84
399	OCT-05	FLOWERS BY DOROTHY		79.36
400	MAR-05	FLYING J THAD'S REST		16.43
401	MAR-05	FORMOSA CHINESE RESTAU		8.98
402	JAN-05	FRANCISCO'S MEXICAN RE		49.50
403	APR-05	FRANCISCO'S MEXICAN RE		20.88
404	APR-05	FRATELLI PIZZA		57.74
405	JUL-05	FRATELLI PIZZA		58.06
406	JAN-05	FRYS-FOOD-DRG #103 SXN		10.20
407	APR-05	FRYS-FOOD-DRG #103 SXN		106.78
408	JUN-05	FRYS-FOOD-DRG #103 SXN		45.29

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
409	JUL-05	FRYS-FOOD-DRG #103 SXN		\$ 15.50
410	FEB-05	FRYS-FOOD-DRG #104 SXN		54.92
411	MAR-05	FRYS-FOOD-DRG #104 SXN		26.01
412	APR-05	FRYS-FOOD-DRG #104 SXN		106.01
413	MAY-05	FRYS-FOOD-DRG #104 SXN		218.24
414	JUL-05	FRYS-FOOD-DRG #104 SXN		52.62
415	AUG-05	FRYS-FOOD-DRG #104 SXN		54.24
416	SEP-05	FRYS-FOOD-DRG #104 SXN		78.19
417	OCT-05	FRYS-FOOD-DRG #104 SXN		26.97
418	NOV-05	FRYS-FOOD-DRG #104 SXN		27.78
419	DEC-05	FRYS-FOOD-DRG #104 SXN		74.95
420	JAN-05	FRYS-FOOD-DRG#0077 SXN		150.61
421	MAR-05	FRYS-FOOD-DRG#0077 SXN		6.68
422	APR-05	FRYS-FOOD-DRG#0077 SXN		17.95
423	OCT-05	FTD*FLORAL ARTS LTD OF		80.00
424	APR-05	FTD*PRESCOTT VALLEY FL		37.33
425	DEC-05	FUEGO MEXICAN GRILL &		19.41
426	JUN-05	GABBY'S KITCHEN		20.61
427	JUL-05	GABBY'S KITCHEN		29.86
428	NOV-05	GABBY'S KITCHEN		41.52
429	APR-05	GALAXY DINER 605		16.52
430	OCT-05	GALAXY DINER 605		24.21
431	FEB-05	GOLDEN CORRAL 29724Q15		63.87
432	MAR-05	GOLDEN CORRAL 29724Q15		37.34
433	APR-05	GOLDEN CORRAL 29724Q15		17.86
434	MAY-05	GOLDEN CORRAL 29724Q15		25.50
435	JUN-05	GOLDEN CORRAL 29724Q15		14.21
436	JUL-05	GOLDEN CORRAL 29724Q15		35.20
437	AUG-05	GOLDEN CORRAL 29724Q15		12.92
438	SEP-05	GOLDEN CORRAL 29724Q15		38.75
439	OCT-05	GOLDEN CORRAL 29724Q15		17.21
440	NOV-05	GOLDEN CORRAL 29724Q15		11.30
441	DEC-05	GOLDEN CORRAL 29724Q15		24.85
442	NOV-05	GOLDEN DRAGON REST		20.91
443	JAN-05	GOLDEN GATE RESTAURANT		74.98
444	FEB-05	GURLEY STREET GRILL		81.75
445	APR-05	GURLEY STREET GRILL		191.21
446	JUL-05	GURLEY STREET GRILL		102.85
447	AUG-05	GURLEY STREET GRILL		89.29
448	SEP-05	GURLEY STREET GRILL		131.04
449	OCT-05	GURLEY STREET GRILL		140.54
450	NOV-05	GURLEY STREET GRILL		29.58
451	DEC-05	GURLEY STREET GRILL		82.39
452	MAR-05	HAMPTON INN HAVASU 51		688.41
453	MAY-05	HAMPTON INN HAVASU 51		305.96
454	JUN-05	HAMPTON INN HAVASU 51		152.98
455	SEP-05	HAMPTON INN HAVASU 51		229.47
456	NOV-05	HAMPTON INN HAVASU 51		660.16
457	NOV-05	HAMPTON INN TUCSON 61		111.39
458	OCT-05	HAMPTON INNS TIP		426.60
459	JUN-05	HAMPTON INNS & SUITTIP		287.91
460	AUG-05	HARBOR HOUSE RESTAURAN		63.02
461	OCT-05	HARKINS PRESCOTT VALLE		25.00
462	OCT-05	HASSAYAMPA HOTEL LLC		577.45
463	FEB-05	HASTINGS-ENTERTAINME #		43.87
464	JUN-05	HERTZ RENT-A-CAR		449.64
465	JUL-05	HIDDEN VALLEY INN		77.05
466	AUG-05	HIRO S SUSHI BAR		22.11
467	DEC-05	HIROS SUSHI BAR & REST		89.40
468	DEC-05	HMS HOST-ORD AIRPT #81		9.10
469	AUG-05	HMSHOST SAN AIRPT #00		18.81
470	AUG-05	HMSHOST-PHX-AIR #00		37.95
471	OCT-05	HMSHOST-PHX-AIR #00		31.02
472	AUG-05	HMSHOST-PHX-AIR #01		8.64
473	MAY-05	HOB0 JOE'S		17.60
474	JAN-05	HOB0 JOES COFFEE S		16.39
475	FEB-05	HOB0 JOES COFFEE S		14.02
476	AUG-05	HOLIDAY INN EXPRES		345.76
477	FEB-05	HOLIDAY INN EXPRESS PR		325.45
478	OCT-05	HOLIDAY INN EXPRESS TU		121.54
479	APR-05	HOLIDAY INN EXPRESSTIP		1,106.53
480	JUN-05	HOLIDAY INN EXPRESSTIP		520.72
481	NOV-05	HOLIDAY INN EXPRESSTIP		195.27
482	JUN-05	HOLIDAY INN FLAGSTAFF		238.52
483	AUG-05	HOLIDAY INN TUCSON		73.10
484	SEP-05	HOLIDAY INN TUCSON		91.38
485	OCT-05	HOLIDAY INN TUCSON		190.71
486	DEC-05	HOLIDAY INN TUCSON		156.96
487	FEB-05	HOLIDAY INN-AIRPORT		194.58
488	APR-05	HOLIDAY INN-AIRPORT		204.06
489	MAY-05	HOLIDAY INN-AIRPORT		25.33
490	JUN-05	HOLIDAY INN-AIRPORT		491.21
491	JUL-05	HOLIDAY INN-AIRPORT		188.19
492	AUG-05	HOLIDAY INN-AIRPORT		(3.50)

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
493	FEB-05	HOLIDAY INNS		\$ 345.51
494	MAR-05	HOLIDAY INNS		388.68
495	APR-05	HOLIDAY INNS		777.36
496	JUN-05	HOLIDAY INNS		539.85
497	JUL-05	HOLIDAY INNS		151.16
498	AUG-05	HOLIDAY INNS		194.34
499	OCT-05	HOLIDAY INNS		75.58
500	DEC-05	HOLIDAY INNS		194.34
501	JAN-05	HOLIDAY INNS EXPRESS		173.67
502	FEB-05	HOLIDAY INNS EXPRESS		139.54
503	APR-05	HOLIDAY INNS EXPRESS		147.33
504	MAY-05	HOLIDAY INNS EXPRESS		978.18
505	JUL-05	HOLIDAY INNS EXPRESS		710.93
506	AUG-05	HOLIDAY INNS EXPRESS		351.76
507	OCT-05	HOLIDAY INNS EXPRESS		388.45
508	DEC-05	HOLIDAY INNS EXPRESS		317.87
509	AUG-05	HOLIDAY INNS FLAGSTAFF		98.12
510	AUG-05	HOMETOWN BUFFE00103291		32.43
511	NOV-05	HOMETOWN BUFFE00103291		41.84
512	FEB-05	HOT WOK EXPRESS		8.30
513	NOV-05	HOTEL ST MICHEAL		22.12
514	SEP-05	HOTELS.COM - MC		259.00
515	APR-05	HOUSE OF BREAD		19.82
516	OCT-05	HOUSE OF BREAD		25.50
517	NOV-05	HOUSE OF BREAD		13.50
518	DEC-05	HOUSE OF BREAD		44.10
519	MAY-05	HUNAN WEST		24.93
520	JUL-05	HUNAN WEST		41.63
521	NOV-05	HUNAN WEST		6.90
522	OCT-05	ICUEE, THE DEMO EXPO		20.00
523	MAR-05	IHOP #1514 21815147		83.62
524	NOV-05	IHOP #1518 21815188		12.11
525	MAR-05	IHOP #1524 21815246		67.97
526	MAY-05	IHOP #1524 21815246		19.57
527	JUN-05	IHOP #1524 21815246		11.35
528	AUG-05	IHOP #1524 21815246		23.45
529	NOV-05	IHOP #1524 21815246		62.04
530	NOV-05	IHOP #3033		18.63
531	MAR-05	IHOP#1527 05415278		18.03
532	DEC-05	INCAHOOTS		162.19
533	APR-05	INDIAN PINE RESTAURANT		10.25
534	MAR-05	INTERNATIONAL HOUSE OF		24.74
535	SEP-05	IRON SKILLET #15		12.20
536	JUN-05	J BS RESTAURANT		137.85
537	OCT-05	J BS RESTAURANT		10.97
538	NOV-05	J BS RESTAURANT		44.73
539	JUL-05	JA STEAKHOUSE		27.22
540	MAR-05	JACK INTHE BOX05615Q43		5.83
541	FEB-05	JACK INTHE BOX06911Q43		19.24
542	MAR-05	JACK INTHE BOX06911Q43		6.88
543	JUN-05	JACK INTHE BOX06911Q43		6.67
544	JUL-05	JACK INTHE BOX06911Q43		19.24
545	JUN-05	JACKSONS GRILL		154.54
546	NOV-05	JACKSONS GRILL		30.07
547	NOV-05	JAVELINA CANTINA		36.91
548	MAY-05	JAVELINA CANTINA SED		100.33
549	JUN-05	JAVELINA CANTINA SED		14.55
550	JUL-05	JAVELINA CANTINA SED		21.00
551	AUG-05	JAVELINA CANTINA SED		49.22
552	DEC-05	JAVELINA CANTINA SED		29.68
553	OCT-05	JB'S REST #377		8.67
554	FEB-05	JB'S RESTAURANT 11		14.15
555	MAR-05	JB'S RESTAURANT 11		25.71
556	JUN-05	JB'S RESTAURANT 11		22.99
557	JUL-05	JB'S RESTAURANT 11		17.24
558	NOV-05	JB'S RESTAURANT 11		23.43
559	JAN-05	JD'S CAFE		6.77
560	JUN-05	JEROME BREWERY		12.21
561	JUL-05	JEROME PALACE		27.52
562	FEB-05	JOANN FABRIC #1831		8.29
563	APR-05	JOE'S CRAB SHACK-TEMPE		60.00
564	SEP-05	JOE'S CRAB SHACK-TEMPE		22.25
565	SEP-05	JOE'S CRAB-TEMPE		30.95
566	MAR-05	JOHNNY CARINO'S #1412		28.43
567	AUG-05	JOSHUA TREE FAMILY RES		41.63
568	JAN-05	JUICY'S RIVER CAFE		42.48
569	JAN-05	KACHINA DOWNTOWN		239.98
570	FEB-05	KACHINA DOWNTOWN		177.73
571	MAR-05	KACHINA DOWNTOWN		107.60

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
572	APR-05	KACHINA DOWNTOWN		\$ 210.70
573	MAY-05	KACHINA DOWNTOWN		198.93
574	JUN-05	KACHINA DOWNTOWN		27.23
575	JUL-05	KACHINA DOWNTOWN		118.25
576	JUL-05	KACHINIA DOWNTOWN		41.34
577	AUG-05	KACHINIA DOWNTOWN		150.78
578	SEP-05	KACHINIA DOWNTOWN		94.79
579	OCT-05	KACHINIA DOWNTOWN		98.00
580	NOV-05	KACHINIA DOWNTOWN		38.59
581	DEC-05	KACHINIA DOWNTOWN		42.89
582	OCT-05	KENDALL'S FAMOUS B		23.25
583	MAR-05	KFC #6		18.25
584	JUL-05	KFC #6		6.05
585	AUG-05	KFC #6		6.38
586	NOV-05	KFC #6		7.28
587	OCT-05	KFC #7660002 76600Q30		5.57
588	NOV-05	KFC #7660002 76600Q30		5.24
589	MAY-05	KFC #G325005 87550Q30		5.08
590	FEB-05	KFC #J605011 22800Q30		8.69
591	MAR-05	KFC #J605011 22800Q30		30.82
592	APR-05	KFC #J605011 22800Q30		35.23
593	MAY-05	KFC #J605012 22800Q30		30.82
594	APR-05	KFC #K201001 46700Q30		10.80
595	JUN-05	KFC #K201001 46700Q30		5.80
596	JUL-05	KFC #K201001 46700Q30		7.30
597	FEB-05	KFC #K555001 38300Q30		4.75
598	FEB-05	KFC #L820-005 35000Q30		4.95
599	MAR-05	KFC #L820-005 35000Q30		9.92
600	APR-05	KFC #L820-005 35000Q30		12.63
601	DEC-05	KFC #L820-005 35000Q30		6.46
602	APR-05	KFC WINSLOW		4.15
603	OCT-05	KFC WINSLOW		5.23
604	NOV-05	KINGMAN DAILY MINER		103.60
605	SEP-05	KINGMAN-CHILI'00010462		21.09
606	NOV-05	KMART 00039248		42.13
607	NOV-05	KMART 00048801		5.42
608	NOV-05	KMART 00073130		33.88
609	FEB-05	KMART 00095281		53.92
610	JAN-05	KOKOPELLI INN AND HOPI		408.10
611	MAR-05	KRYSTAL S FINE DINING		25.80
612	MAR-05	LA CASITA CAFE		122.42
613	APR-05	LA CASITA CAFE		21.00
614	MAY-05	LA CASITA CAFE		16.00
615	JUN-05	LA CASITA CAFE		16.77
616	JUL-05	LA CASITA CAFE		19.00
617	SEP-05	LA CASITA CAFE		41.00
618	OCT-05	LA CASITA CAFE		24.08
619	DEC-05	LA CASITA CAFE		27.12
620	FEB-05	LA COCINA DE EVA		88.92
621	APR-05	LA COCINA DE EVA		27.64
622	MAR-05	LA FONDA		123.95
623	JUN-05	LA FONDA		15.49
624	AUG-05	LA FONDA		84.65
625	SEP-05	LA FONDA MEXICAN RESTA		20.86
626	OCT-05	LA PARRILLA SUIZA #3		16.84
627	AUG-05	LA PARRILLA SUIZA #5		53.97
628	AUG-05	LA PINATA		14.13
629	AUG-05	LAKE SIDE PRIMARY C		75.00
630	JAN-05	LAQUINTA_FLAGSTAFF PAA		317.20
631	FEB-05	LAS TRANKAS RESTAURANT		10.50
632	MAY-05	LAS TRANKAS RESTAURANT		24.40
633	NOV-05	LAS TRANKAS RESTAURANT		39.97
634	MAR-05	LAS VIGAS STEAK RANCH		81.85
635	APR-05	LAS VIGAS STEAK RANCH		64.68
636	MAY-05	LAS VIGAS STEAK RANCH		62.28
637	MAR-05	LATE FOR THE TRAIN		8.60
638	JUN-05	LATE FOR THE TRAIN		13.82
639	OCT-05	LATE FOR THE TRAIN		17.79
640	NOV-05	LATE FOR THE TRAIN		17.62
641	DEC-05	LATE FOR THE TRAIN		8.70
642	FEB-05	LICANO'S MEXICAN F		22.46
643	JUN-05	LIGHTNING RIDGE CAFE		12.97
644	FEB-05	LITTLE AMERICA FLAGSTA		100.71
645	MAR-05	LITTLE AMERICA FLAGSTA		22.71
646	APR-05	LITTLE AMERICA FLAGSTA		45.03
647	AUG-05	LITTLE AMERICA FLAGSTA		25.92
648	DEC-05	LITTLE AMERICA FLAGSTA		146.51
649	JUN-05	LITTLE CAESARS 3190		16.22
650	MAY-05	LK HAVASU CITY CHMBR		450.00
651	NOV-05	LO S RESTAURANT		8.36
652	OCT-05	LODGE ON ROUTE 66		68.94
653	DEC-05	LOMBARDI'S ITALIAN BAK		20.61
654	NOV-05	LOS PRIMOS BAR & GRILL		32.66

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
655	JAN-05	LOTUS GARDEN CHINESE R		\$ 19.60
656	NOV-05	LOTUS GARDEN CHINESE R		30.55
657	JUN-05	LOVE S COUNTRY00002Q01		17.44
658	AUG-05	LOVE S COUNTRY00002Q01		14.49
659	JAN-05	LOVE S COUNTRY00004Q01		9.05
660	DEC-05	LOVES 265 F00002Q01		5.96
661	OCT-05	LU MANDARIN BUFFET		17.28
662	JAN-05	LU MANDARIN BUFFET LLC		14.96
663	NOV-05	LUS MANDARIN BUFFET		119.41
664	JUN-05	M & M DAIRY QUEEN		7.45
665	MAR-05	MACAYO PRESCOTT		28.88
666	APR-05	MACAYO PRESCOTT		136.69
667	JUN-05	MACAYO PRESCOTT		43.03
668	JUL-05	MACAYO PRESCOTT		69.21
669	OCT-05	MACAYO PRESCOTT		40.16
670	NOV-05	MACAYO PRESCOTT		14.20
671	SEP-05	MAIN STREET CATERING		33.00
672	MAR-05	MALONES BAKERY & D		113.05
673	SEP-05	MALONES BAKERY & D		109.74
674	MAY-05	MARGARITA CANTINA		32.46
675	DEC-05	MARIE CALLENDER'S #67		28.37
676	JUL-05	MARIPOSA HOTEL		267.12
677	AUG-05	MARIPOSA HOTEL		289.40
678	JAN-05	MARKETPLACE CAFE		23.74
679	SEP-05	MARKETPLACE CAFE		26.33
680	OCT-05	MARRIOTT DWTN LOUISVIL		667.08
681	DEC-05	MARRIOTT HOTELS UNIVER		234.00
682	MAY-05	MAVERIK CNTRY STRE		9.93
683	JUL-05	MAVERIK CTRY STRE #137		1.42
684	SEP-05	MAX AND THELMAS RESTAU		41.97
685	AUG-05	MCDONALD'S F12118 Q17		43.21
686	OCT-05	MCDONALD'S F17372 Q17		9.92
687	OCT-05	MCDONALD'S F18788 Q17		13.80
688	OCT-05	MCDONALD'S F2640 Q17		14.48
689	SEP-05	MICHAELS #9608		39.03
690	OCT-05	MICHAELS #9608		18.36
691	JAN-05	MICHAELS'S CHEESE STEA		15.02
692	DEC-05	MINERS DINER		32.24
693	OCT-05	MONSOON ON THE SQUARE		15.77
694	MAR-05	MR. C'S RESTAURANT		238.23
695	APR-05	MR. C'S RESTAURANT		100.51
696	MAY-05	MR. C'S RESTAURANT		78.79
697	SEP-05	MUDSHARK BREWING CO		40.59
698	MAR-05	MURPHYS		33.89
699	APR-05	MURPHYS		170.50
700	MAY-05	MURPHYS		88.65
701	JUN-05	MURPHY'S GRILL		339.13
702	JUL-05	MURPHY'S GRILL		283.08
703	AUG-05	MURPHY'S GRILL		113.28
704	SEP-05	MURPHY'S GRILL		76.72
705	OCT-05	MURPHY'S GRILL		94.03
706	NOV-05	MURPHY'S GRILL		100.48
707	DEC-05	MURPHY'S GRILL		193.35
708	JAN-05	MURPHYS GRILL COTTONWO		26.61
709	FEB-05	MURPHYS GRILL COTTONWO		242.14
710	MAR-05	MURPHYS GRILL COTTONWO		104.76
711	APR-05	MURPHYS GRILL COTTONWO		221.11
712	JUN-05	NATIVE NEW YORKER #12		136.00
713	JUL-05	NATIVE NEW YORKER #12		16.77
714	SEP-05	NATIVE NEW YORKER #12		17.32
715	OCT-05	NATIVE NEW YORKER #12		45.09
716	NOV-05	NATIVE NEW YORKER #12		60.34
717	DEC-05	NATIVE NEW YORKER #12		29.39
718	NOV-05	NAU TICKETING		400.00
719	APR-05	NAUTICAL INN CAPTAIN		50.49
720	APR-05	NILES RADIO		58.38
721	JUN-05	NILES RADIO		102.97
722	DEC-05	NILES RADIO		25.95
723	DEC-05	NIMARCOS PIZZA		77.75
724	FEB-05	ON THE BORD12700001271		49.36
725	JUN-05	OREGANO S PIZZA		22.59
726	JAN-05	OREGANOS		161.46
727	FEB-05	OREGANOS		88.14
728	MAR-05	OREGANOS		33.21
729	APR-05	OREGANOS		215.74
730	MAY-05	OREGANOS		121.67
731	JUN-05	OREGANOS		145.40
732	JUL-05	OREGANOS		173.13
733	AUG-05	OREGANOS		224.54
734	SEP-05	OREGANOS		181.08
735	OCT-05	OREGANOS		123.38
736	NOV-05	OREGANOS		34.64
737	DEC-05	OREGANOS		159.54

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
738	APR-05	OUR DAILY BREAD		\$ 295.07
739	JUL-05	OUR DAILY BREAD		55.17
740	AUG-05	OUR DAILY BREAD		113.32
741	SEP-05	OUR DAILY BREAD		87.99
742	OCT-05	OUR DAILY BREAD		45.98
743	NOV-05	OUR DAILY BREAD		113.33
744	DEC-05	OUR DAILY BREAD		47.85
745	JAN-05	OUR DAILY BREAD DELI		24.39
746	FEB-05	OUR DAILY BREAD DELI		64.33
747	MAR-05	OUR DAILY BREAD DELI		195.90
748	MAR-05	OUTBACK #0312		37.57
749	JAN-05	OUTBACK #0317		57.95
750	FEB-05	OUTBACK #0317		27.29
751	MAY-05	OUTBACK #0317		182.36
752	OCT-05	OUTBACK #0317		31.29
753	NOV-05	OUTBACK #0317		181.86
754	APR-05	OUTBACK #0319		198.77
755	OCT-05	OUTBACK #0319		60.00
756	DEC-05	OUTBACK #0319		38.05
757	MAR-05	P.F. CHANG'S #8000		14.63
758	DEC-05	P.F. CHANG'S #8000		63.52
759	JAN-05	PANCHOS MC GILLICUDDYS		26.15
760	JUL-05	PANCHOS MC GILLICUDDYS		26.71
761	SEP-05	PANCHOS MC GILLICUDDYS		37.93
762	OCT-05	PANCHOS MC GILLICUDDYS		25.37
763	AUG-05	PAPA JOHN'S PIZZA		15.06
764	MAR-05	PAPPADEAUX SEAFOOD KIT		17.66
765	OCT-05	PAPPADEAUX SEAFOOD KIT		37.54
766	JAN-05	PARICUTIN		79.15
767	FEB-05	PATS PLACE		30.73
768	MAR-05	PATS PLACE		7.16
769	APR-05	PATS PLACE		185.24
770	JUN-05	PATS PLACE		189.64
771	AUG-05	PATS PLACE		65.35
772	SEP-05	PATS PLACE		40.00
773	NOV-05	PATS PLACE		63.71
774	DEC-05	PATS PLACE		29.80
775	JUN-05	PEI WEI ASIAN DINER-00		28.67
776	JAN-05	PETE S FAMILY RESTAURA		72.20
777	FEB-05	PETE S FAMILY RESTAURA		83.01
778	APR-05	PETE S FAMILY RESTAURA		38.07
779	MAY-05	PETE S FAMILY RESTAURA		95.83
780	AUG-05	PETE S FAMILY RESTAURA		13.86
781	JUL-05	PICACHO PEAK PLAZA		38.68
782	AUG-05	PICACHO PEAK PLAZA		8.94
783	FEB-05	PINE COUNTRY RESTA		47.30
784	MAR-05	PINE COUNTRY RESTA		9.55
785	APR-05	PINE COUNTRY RESTA		63.85
786	JUL-05	PINE COUNTRY RESTA		87.84
787	AUG-05	PINE COUNTRY RESTA		8.99
788	NOV-05	PINE COUNTRY RESTA		23.09
789	DEC-05	PINE COUNTRY RESTA		140.01
790	SEP-05	PINE COUNTRY RESTAURAN		30.09
791	OCT-05	PINE COUNTRY RESTAURAN		609.06
792	NOV-05	PINE COUNTRY RESTAURAN		8.77
793	MAR-05	PINNACLE PEAK		89.07
794	FEB-05	PIZZA FACTORY		8.26
795	APR-05	PIZZA FACTORY		9.53
796	JUL-05	PIZZA FACTORY		18.02
797	AUG-05	PIZZA FACTORY		10.30
798	SEP-05	PIZZA FACTORY		73.42
799	OCT-05	PIZZA FACTORY		406.89
800	NOV-05	PIZZA FACTORY		24.62
801	DEC-05	PIZZA FACTORY		88.47
802	NOV-05	PIZZA H006705 16800Q34		37.20
803	JAN-05	PIZZA H007980 17400Q34		25.74
804	NOV-05	PIZZA H010725 17500Q34		158.83
805	MAR-05	PIZZA HUT 55609Q34		16.94
806	JUN-05	PIZZA HUT 55609Q34		18.60
807	JUL-05	PIZZA HUT 55609Q34		54.25
808	FEB-05	PIZZA HUT #00742700Q34		17.54
809	APR-05	PIZZA HUT #00742700Q34		17.54
810	JUL-05	PIZZA HUT #00742700Q34		31.00
811	NOV-05	PIZZA HUT #00742700Q34		41.23
812	DEC-05	PIZZA HUT #00742700Q34		16.00
813	MAR-05	PIZZA HUT #00942700Q34		42.26
814	APR-05	PIZZA HUT #00942700Q34		(19.13)
815	SEP-05	PIZZA HUT #00942700Q34		20.00
816	DEC-05	PIZZA HUT #43 57400Q34		84.33
817	APR-05	PIZZA HUT #7 55700Q34		39.62
818	NOV-05	PIZZA HUT #7 55700Q34		17.15
819	FEB-05	PIZZA HUT OF C38400Q34		20.77
820	MAR-05	PIZZA HUT OF C38400Q34		23.50

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
821	JUN-05	PIZZA HUT OF TAYLOR		\$ 19.13
822	AUG-05	PIZZA HUT OF TAYLOR		16.66
823	APR-05	PLACE M&R'S RESTAU		14.39
824	MAY-05	PLACE M&R'S RESTAU		120.68
825	JUN-05	PLACE M&R'S RESTAU		17.09
826	SEP-05	PLACE M&R'S RESTAU		18.75
827	OCT-05	PLACE M&R'S RESTAU		39.80
828	NOV-05	PLACE M&R'S RESTAU		16.98
829	DEC-05	PRESCOTT BREWING C		44.60
830	MAR-05	PRESCOTT BREWING COMPA		56.54
831	JUL-05	PRESCOTT BREWING COMPA		37.87
832	AUG-05	PRESCOTT BREWING COMPA		74.47
833	NOV-05	PRESCOTT BREWING COMPA		44.83
834	JAN-05	PRESCOTT CHAMBER OF CO		40.00
835	FEB-05	PRESCOTT CHAMBER OF CO		40.00
836	JUN-05	PRESCOTT COLLEGE		57.50
837	NOV-05	PRESCOTT CONVENTION CT		619.03
838	OCT-05	PRESCOTT MINING CO		108.20
839	APR-05	PROFLOWERS.COM		39.98
840	JAN-05	QUALITY INNS LAS CAMP		152.54
841	APR-05	QUALITY INNS LAS CAMP		132.64
842	JUN-05	QUALITY INNS LAS CAMP		198.96
843	AUG-05	QUALITY INNS LAS CAMP		297.08
844	JUN-05	QUIK MART #33		42.22
845	OCT-05	QUIZNO'S SUB #2515		35.68
846	NOV-05	QUIZNO'S SUB #2515		33.84
847	DEC-05	QUIZNO'S SUB #2515		27.66
848	MAR-05	QUIZNOS SUB #2777		5.43
849	MAY-05	QUIZNOS SUB #2777		13.13
850	APR-05	QUIZNOS SUB #5098 Q22		14.02
851	APR-05	R & R PIZZA EXPRES		108.42
852	SEP-05	RADIO SHACK 00134718		18.36
853	AUG-05	RADIO SHACK DEA01902659		67.82
854	JAN-05	RADISSON HOTELS-WOODLA		10.98
855	FEB-05	RADISSON HOTELS-WOODLA		97.74
856	MAR-05	RADISSON HOTELS-WOODLA		46.08
857	AUG-05	RADISSON HOTELS-WOODLA		135.63
858	SEP-05	RADISSON HOTELS-WOODLA		78.25
859	NOV-05	RADISSON HOTELS-WOODLA		74.38
860	APR-05	RAINFOREST-AZ REST.		27.83
861	JUL-05	RAMADA INN		84.92
862	DEC-05	RAMADA INN		86.59
863	FEB-05	RANDALL'S RESTAURANT		8.19
864	AUG-05	RANDALL'S RESTAURANT		34.80
865	SEP-05	RANDALL'S RESTAURANT		16.34
866	OCT-05	RBT REALTY/PERKINS RES		12.16
867	JUN-05	RDROBIN NO 394		32.85
868	MAR-05	RED LOBSTER US00003699		30.89
869	JUN-05	RED LOBSTER US00008458		56.65
870	JUL-05	RED LOBSTER US00008458		52.69
871	AUG-05	RED LOBSTER US00008458		69.28
872	SEP-05	RED LOBSTER US00008458		30.64
873	NOV-05	RED LOBSTER US00008458		79.84
874	DEC-05	RED LOBSTER US00008698		50.47
875	SEP-05	RED ROBIN		24.30
876	SEP-05	RED ROBIN 358		22.09
877	MAR-05	RED ROBIN NO 309		15.60
878	JUN-05	RED ROBIN NO 309		13.52
879	AUG-05	RED ROBIN NO 309		93.85
880	JAN-05	RED ROBIN NO 67		314.77
881	FEB-05	RED ROBIN NO 67		15.94
882	MAR-05	RED ROBIN NO 67		157.01
883	APR-05	RED ROBIN NO 67		210.37
884	MAY-05	RED ROBIN NO 67		81.64
885	JUL-05	RED ROBIN NO 67		14.11
886	AUG-05	RED ROBIN NO 67		51.37
887	SEP-05	RED ROBIN NO 67		27.97
888	NOV-05	RED ROBIN NO 67		64.73
889	JUN-05	RELIC'S RESTAURANT		75.48
890	AUG-05	RELIC'S RESTAURANT		98.30
891	DEC-05	RELIC'S RESTAURANT		18.04
892	JUL-05	RENTAL SERVICE CORP 41		36.93
893	MAR-05	RESIDENCE INNS-TUCSON		332.67
894	APR-05	RIO RICO RESORT RESTAU		401.93
895	MAR-05	ROCK SPRINGS CAFE		14.17
896	AUG-05	ROCK SPRINGS CAFE		27.28
897	SEP-05	ROCK SPRINGS CAFE		19.00
898	OCT-05	RODS STEAK HOUSE		27.14
899	JAN-05	ROMO S CAFE		30.46
900	APR-05	ROMO S CAFE		22.03
901	AUG-05	ROMO S CAFE		52.80
902	APR-05	ROSA'S CANTINA		64.17
903	SEP-05	ROSA'S CANTINA		69.45
904	FEB-05	ROSS STORES #441		35.63

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
905	MAR-05	ROYAL ROAD MARKET		\$ 22.30
906	JUN-05	ROYAL ROAD MARKET		16.50
907	JUL-05	RUBIO'S AGUA FRIA #52		13.61
908	OCT-05	RUBIO'S BEARDSLEY #123		6.21
909	JAN-05	RUBY TUESDAY #4566		22.78
910	OCT-05	RUBY TUESDAY #4566		36.27
911	NOV-05	RUBY TUESDAY #4566		22.45
912	DEC-05	RUBY TUESDAY #4566		43.93
913	AUG-05	SAFARI BAR & GRILL INC		14.65
914	SEP-05	SAFARI BAR & GRILL INC		36.77
915	MAR-05	SAFEWAY STORE00002162		6.74
916	JUN-05	SAFEWAY STORE00002162		9.80
917	SEP-05	SAFEWAY STORE00002709		19.96
918	MAR-05	SAFEWAY STORE00012252		70.75
919	MAR-05	SAFEWAY STORE00012294		32.62
920	MAY-05	SAFEWAY STORE00012294		19.39
921	FEB-05	SAFEWAY STORE00016394		22.89
922	MAR-05	SAFEWAY STORE00016394		9.31
923	SEP-05	SAFEWAY STORE00016394		7.14
924	OCT-05	SAFEWAY STORE00016394		21.42
925	DEC-05	SAFEWAY STORE00016394		31.26
926	JAN-05	SAFEWAY STORE00017335		21.36
927	APR-05	SAFEWAY STORE00017335		67.48
928	JUN-05	SAFEWAY STORE00017335		18.33
929	JUL-05	SAFEWAY STORE00017335		46.45
930	AUG-05	SAFEWAY STORE00017335		60.87
931	DEC-05	SAFEWAY STORE00017335		44.20
932	MAY-05	SAFEWAY STORE00020172		10.78
933	FEB-05	SAFEWAY STORE00020289		54.08
934	MAR-05	SAFEWAY STORE00020289		112.38
935	APR-05	SAFEWAY STORE00020289		38.36
936	MAY-05	SAFEWAY STORE00020289		8.37
937	JUN-05	SAFEWAY STORE00020289		56.33
938	SEP-05	SAFEWAY STORE00020289		28.51
939	NOV-05	SAFEWAY STORE00020289		4.99
940	DEC-05	SAFEWAY STORE00020289		35.75
941	MAR-05	SAFEWAY STORE00020529		42.32
942	APR-05	SAFEWAY STORE00020529		20.09
943	JUN-05	SAFEWAY STORE00020529		51.75
944	JUL-05	SAFEWAY STORE00020529		14.78
945	AUG-05	SAFEWAY STORE00020529		12.47
946	APR-05	SAFEWAY STORE 00017475		9.56
947	MAY-05	SAFEWAY STORE 00017475		8.62
948	JUN-05	SAMURAI SAMS TERIYAKI		30.89
949	MAR-05	SCHLOTSKYS DELI		22.69
950	JUN-05	SCHLOTSKYS DELI		8.00
951	JUL-05	SCHLOTSKYS DELI		6.26
952	OCT-05	SCHLOTSKYS DELI		27.33
953	DEC-05	SCHLOTSKYS DELI		22.36
954	FEB-05	SCOTTYS BROASTED CHICK		46.04
955	MAR-05	SCOTTYS BROASTED CHICK		36.63
956	JUL-05	SCOTTYS BROASTED CHICK		20.57
957	SEP-05	SCOTTYS BROASTED CHICK		71.41
958	NOV-05	SCOTTYS BROASTED CHICK		12.19
959	DEC-05	SCOTTYS BROASTED CHICK		12.46
960	JAN-05	SCOUT'S GOURMET GR		20.37
961	JAN-05	SDI #F06-3582 Q63		6.27
962	JAN-05	SDI #F12-4351 Q63		6.92
963	FEB-05	SDI #F12-4351 Q63		8.42
964	JAN-05	SDI #F14-4427 Q63		21.92
965	FEB-05	SDI #F14-4427 Q63		10.37
966	MAR-05	SDI #F14-4427 Q63		12.34
967	FEB-05	SDI #N08-1139 Q63		18.82
968	MAR-05	SDI #N08-1139 Q63		16.78
969	MAR-05	SDI #N18-1263 Q63		9.05
970	JUL-05	SEARS DEALER 3238		495.00
971	FEB-05	SEARS ROEBUCK 2358		238.06
972	NOV-05	SEARS ROEBUCK 2358		75.68
973	APR-05	SEDONA RED ROCK NEWS		43.00
974	APR-05	SHAKES PIZZA		9.90
975	DEC-05	SHERATON CHICAGO NORTH		285.60
976	DEC-05	SHOW LOW CHAMBER O		25.00
977	MAR-05	SHOW LOW FLOWER SHOPPE		60.05
978	OCT-05	SHOW LOW FLOWER SHOPPE		39.43
979	JAN-05	SIZZLER RESTRAUNT		36.17
980	JUN-05	SIZZLER RESTRAUNT		13.42
981	DEC-05	SLEEP INN		64.44
982	MAR-05	SMITHS FOOD #4190 SS6		9.98
983	AUG-05	SMITHS FOOD #4190 SS6		24.21
984	NOV-05	SONIC #1073		7.15
985	APR-05	SONIC #1077 Q63		6.37
986	DEC-05	SONIC #1139		11.28
987	MAY-05	SONIC #1139 Q63		18.49

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
988	JUN-05	SONIC #1145 Q63		\$ 6.23
989	OCT-05	SONIC #1145 Q63		13.75
990	MAR-05	SONIC #1241 Q63		6.38
991	APR-05	SONIC #1263 Q63		7.97
992	APR-05	SONIC #3385 Q63		6.27
993	JUL-05	SONIC #3385 Q63		7.37
994	NOV-05	SONIC #3385 Q63		6.93
995	MAY-05	SONIC #3582 Q63		6.08
996	OCT-05	SONIC #4351 Q63		14.26
997	APR-05	SONIC #4427 Q63		12.88
998	MAY-05	SONIC #4427 Q63		13.08
999	JUN-05	SONIC #4427 Q63		16.81
1000	DEC-05	SONIC DRIVE IN #4833		5.24
1001	JAN-05	SONIC DRIVE IN #483Q63		5.25
1002	MAR-05	SONIC DRIVE IN #483Q63		9.96
1003	AUG-05	SONIC DRIVE IN #483Q63		5.25
1004	OCT-05	SONIC DRIVE IN #483Q63		7.28
1005	MAR-05	SOTO'S P/K OUTPOST		346.72
1006	APR-05	SOTO'S P/K OUTPOST		29.78
1007	MAY-05	SOTO'S P/K OUTPOST		37.94
1008	JUN-05	SOTO'S P/K OUTPOST		32.01
1009	OCT-05	SOTO'S P/K OUTPOST		111.18
1010	NOV-05	SOTO'S P/K OUTPOST		202.36
1011	JAN-05	SOUPER SALAD #88		13.53
1012	MAR-05	SOUPER SALAD #88		28.07
1013	APR-05	SOUPER SALAD #88		39.61
1014	JUN-05	SOUPER SALAD #88		14.53
1015	DEC-05	SPENCER GIFTS # 164		64.85
1016	APR-05	SPRINGHILL SUITES -PRE		120.93
1017	OCT-05	SPRINGHILL SUITES -PRE		208.41
1018	OCT-05	STARBUCKS USA 00058Q48		6.01
1019	JAN-05	STREETS OF NEW YORK #1		42.00
1020	FEB-05	STREETS OF NEW YORK #1		41.66
1021	MAR-05	STREETS OF NEW YORK #1		84.84
1022	AUG-05	STREETS OF NEW YORK #1		248.61
1023	SEP-05	STREETS OF NEW YORK #1		20.85
1024	NOV-05	STREETS OF NEW YORK #1		33.03
1025	MAR-05	SU CASA OF CLARKDALE		20.86
1026	APR-05	SU CASA OF CLARKDALE		53.24
1027	JUN-05	SU CASA OF CLARKDALE		79.17
1028	AUG-05	SU CASA OF CLARKDALE		27.24
1029	FEB-05	SUBWAY		5.10
1030	JUL-05	SUBWAY # 25887 Q16		5.72
1031	AUG-05	SUBWAY # 25887 Q16		6.58
1032	NOV-05	SUBWAY # 26252		8.91
1033	MAR-05	SUBWAY #15739 Q16		5.07
1034	APR-05	SUBWAY #15739 Q16		36.12
1035	JUL-05	SUBWAY 14220 Q16		5.99
1036	OCT-05	SUBWAY 14220 Q16		6.10
1037	NOV-05	SUBWAY 14220 Q16		6.10
1038	SEP-05	SUBWAY 17795		17.05
1039	JAN-05	SUBWAY 21530 Q16		5.83
1040	JAN-05	SUBWAY 2296 Q16		6.05
1041	FEB-05	SUBWAY 2296 Q16		6.05
1042	APR-05	SUBWAY 2296 Q16		5.94
1043	APR-05	SUBWAY 25137 Q16		5.07
1044	JAN-05	SUBWAY 27911 Q16		11.46
1045	FEB-05	SUBWAY 27912 Q16		5.83
1046	JAN-05	SUBWAY 6361 Q16		27.77
1047	MAR-05	SUBWAY 6361 Q16		5.49
1048	MAR-05	SUNWEST EXPRESS #280		8.44
1049	MAR-05	SUPER 8 MOTELS NOGALES		166.95
1050	MAR-05	SWEET & SUBS		24.41
1051	JUN-05	SWEET & SUBS		9.44
1052	JUL-05	SWEET & SUBS		14.27
1053	AUG-05	SWEET & SUBS		22.34
1054	NOV-05	SWEET & SUBS		111.91
1055	DEC-05	SWEET & SUBS		29.57
1056	OCT-05	SZECHUAN RESTAURANT		10.80
1057	NOV-05	SZECHUAN RESTAURANT		73.96
1058	MAR-05	T.G.I. FRIDAY'S #1141		11.33
1059	MAR-05	TACO BELL #9565 Q65		7.66
1060	APR-05	TACO DONS		104.10
1061	OCT-05	TACO DONS		104.01
1062	OCT-05	TACO HACIENDA		30.65
1063	AUG-05	TANIA 33		5.97
1064	JAN-05	TARGET 00009357		23.76
1065	MAR-05	TARGET 00009357		19.77
1066	JUL-05	TARGET 00009357		29.94
1067	DEC-05	TARGET 00009357		1,273.15
1068	SEP-05	TEMPE HOOTERS INC		130.43
1069	SEP-05	TEMPE MISSION PALM HTL		140.10
1070	SEP-05	TEMPE MISSION PALMS HO		2,749.10

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1071	AUG-05	TEQUILA CHARLIE'S		\$ 17.22
1072	FEB-05	TEQUILA CHARLIES LLC		21.20
1073	OCT-05	TERESA'S MOSAIC CAFE		27.00
1074	MAR-05	TERRIBLE HERBST #148		7.20
1075	AUG-05	TEXAS RDHSE HOLDINGS L		30.84
1076	OCT-05	TGI FRIDAYS #0803		36.18
1077	FEB-05	THE CROWN RR CAFE-EAST		176.20
1078	MAR-05	THE CROWN RR CAFE-WEST		83.47
1079	JUL-05	THE CROWN RR CAFE-WEST		18.71
1080	DEC-05	THE CROWN RR CAFE-WEST		35.30
1081	NOV-05	THE FRESH TOMATO		23.43
1082	OCT-05	THE HOME DEPOT 0411		30.20
1083	DEC-05	THE HOME DEPOT 0411		43.18
1084	JAN-05	THE HOME DEPOT 482		37.08
1085	FEB-05	THE HOME DEPOT 482		108.10
1086	MAR-05	THE HOME DEPOT 482		165.14
1087	MAY-05	THE HOME DEPOT 482		184.24
1088	JUN-05	THE HOME DEPOT 482		21.28
1089	AUG-05	THE HOME DEPOT 482		49.50
1090	SEP-05	THE HOME DEPOT 482		46.71
1091	NOV-05	THE HOME DEPOT 482		33.27
1092	NOV-05	THE LONE SPUR CAFE		25.78
1093	MAY-05	THE OFFICE RESTAURANT		34.13
1094	OCT-05	THE OFFICE RESTAURANT		42.36
1095	FEB-05	THE OFFICE RESTAURNT&B		83.94
1096	AUG-05	THE OLD SPAGHETTI FACT		10.00
1097	APR-05	THE OLIVE GARD00010116		5.76
1098	JAN-05	THE OLIVE GARD00015131		76.12
1099	APR-05	THE OLIVE GARD00015131		73.11
1100	MAY-05	THE OLIVE GARD00015131		90.20
1101	JUN-05	THE OLIVE GARD00015131		34.96
1102	JUL-05	THE OLIVE GARD00015131		36.97
1103	AUG-05	THE OLIVE GARD00015131		73.84
1104	NOV-05	THE OLIVE GARD00015131		255.11
1105	DEC-05	THE OLIVE GARD00015131		50.88
1106	JUN-05	THE PLACE M&R'S RE		29.95
1107	AUG-05	THE PLACE M&R'S RE		15.77
1108	SEP-05	THE PLACE M&R'S RE		7.95
1109	AUG-05	THE SIZZLER		35.17
1110	SEP-05	THE SIZZLER		6.50
1111	DEC-05	THE SIZZLER		28.58
1112	DEC-05	THE TOWNE SCRIBE		3.25
1113	JUL-05	THE TURQUOISE ROOM		40.84
1114	JAN-05	THE WAFFLE IRON		16.29
1115	FEB-05	THE WAFFLE IRON		28.38
1116	NOV-05	THE WAFFLE IRON		16.03
1117	OCT-05	THUMB BUTTE ROOM		37.00
1118	MAY-05	TONYS SPUNKY STEER		24.41
1119	OCT-05	TORREON GOLF CLUB LLC		21.65
1120	DEC-05	TOTAL GRAND RENTAL STA		41.63
1121	MAR-05	TRAPPERS CAFE		92.80
1122	APR-05	TRAPPERS CAFE		63.02
1123	MAY-05	TRAPPERS CAFE		15.80
1124	JUN-05	TRAPPERS CAFE		14.95
1125	JUL-05	TRAPPERS CAFE		46.21
1126	AUG-05	TRAPPERS CAFE		68.59
1127	SEP-05	TRAPPERS CAFE		51.03
1128	DEC-05	TRAPPER'S CAFE		32.25
1129	MAR-05	TUCSON HOOTERS INC		77.46
1130	FEB-05	UGLY GREEN CAFE		6.50
1131	MAR-05	UGLY GREEN CAFE & LOUN		18.00
1132	APR-05	UGLY GREEN CAFE & LOUN		39.50
1133	MAY-05	UGLY GREEN CAFE & LOUN		41.00
1134	JUN-05	UGLY GREEN CAFE & LOUN		30.00
1135	JUN-05	U-HAUL-ARABIAN-CAMPE #		183.28
1136	JUN-05	U-HAUL-SILVER-SADDL #6		(91.64)
1137	MAR-05	UNCLE SAM'S		22.62
1138	NOV-05	UNIQUE TRACKS		396.00
1139	AUG-05	VAGABOND HOTEL CIRCLE		140.28
1140	APR-05	VERDE LEA MARKET		12.06
1141	JUN-05	VERDE LEA MARKET		12.06
1142	JAN-05	VERDE VALLEY NEWSPAPER		93.00
1143	JAN-05	VILLA PIZZA #1203 Q93		11.35
1144	DEC-05	VILLA S FOOD MARKET		7.84
1145	OCT-05	VILLAGE-INN-REST #0394		11.24
1146	JAN-05	WAL MART		18.46
1147	AUG-05	WAL MART		44.62
1148	SEP-05	WAL MART		36.08
1149	OCT-05	WAL MART		9.60
1150	DEC-05	WAL MART		63.88
1151	SEP-05	WALDENBOOKS 01009422		28.06
1152	SEP-05	WALDOS BBQ		36.56

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1153	JUN-05	WALGREEN 00052Q39		\$ 12.95
1154	AUG-05	WALGREEN 00052Q39		2.58
1155	DEC-05	WALGREEN 00052Q39		21.60
1156	JAN-05	WALGREEN 00076232		12.01
1157	MAY-05	WAL-MART #1175		0.50
1158	JUN-05	WAL-MART #1175		37.78
1159	DEC-05	WAL-MART #1175		34.90
1160	JUN-05	WAL-MART #1230 SE2		38.33
1161	AUG-05	WAL-MART #1230 SE2		30.81
1162	OCT-05	WAL-MART #1230 SE2		54.57
1163	NOV-05	WAL-MART #1230 SE2		39.76
1164	DEC-05	WAL-MART #1230 SE2		41.36
1165	OCT-05	WAL-MART #1324 SE2		16.16
1166	NOV-05	WAL-MART #1324 SE2		167.08
1167	SEP-05	WAL-MART #1364		4.23
1168	JUL-05	WAL-MART #1417 SE2		251.09
1169	JUN-05	WAL-MART #2051 SE2		14.41
1170	JUL-05	WAL-MART #2051 SE2		18.44
1171	DEC-05	WAL-MART #5303 SE2		77.24
1172	FEB-05	WAL-MART STORES, INC		15.01
1173	JAN-05	WAL-MART STORES, INSE2		10.59
1174	FEB-05	WAL-MART STORES, INSE2		48.28
1175	MAR-05	WAL-MART STORES, INSE2		41.85
1176	APR-05	WAL-MART STORES, INSE2		61.63
1177	DEC-05	WARNERS NURSERY/LANDSC		59.39
1178	JAN-05	WAYSIDE CAFE		22.09
1179	JUL-05	WAYSIDE CAFE		22.09
1180	OCT-05	WAYSIDE CAFE		9.14
1181	NOV-05	WENDYS		9.11
1182	JAN-05	WENDY'S #0001 Q25		22.26
1183	APR-05	WENDYS #8809		5.18
1184	SEP-05	WENDYS NO 413 Q50		9.26
1185	JAN-05	WESTERN WAREHOUSE #260		77.83
1186	JAN-05	WESTSIDE LILO'S CA		12.64
1187	FEB-05	WESTSIDE LILO'S CA		23.67
1188	MAY-05	WESTSIDE LILO'S CA		149.10
1189	AUG-05	WESTSIDE LILO'S CA		15.18
1190	SEP-05	WESTSIDE LILO'S CA		27.42
1191	OCT-05	WESTSIDE LILO'S CA		10.58
1192	NOV-05	WESTSIDE LILO'S CA		11.57
1193	DEC-05	WESTSIDE LILO'S CA		30.52
1194	APR-05	WHATABURGER #227		5.76
1195	MAR-05	WHATABURGER #775		11.08
1196	NOV-05	WHATABURGER 227 Q26		6.67
1197	NOV-05	WHATABURGER 775 Q26		16.03
1198	APR-05	WHITE MTN PUBLISH		74.00
1199	AUG-05	WHITE MTN PURIFIED WAT		118.04
1200	SEP-05	WHITE MTN PURIFIED WAT		145.28
1201	OCT-05	WHITE MTN PURIFIED WAT		45.40
1202	NOV-05	WHITE MTN PURIFIED WAT		45.40
1203	OCT-05	WILDFLOWER BREAD COMPA		28.20
1204	MAR-05	WILLOW CREEK INN		18.71
1205	DEC-05	WILLOW CREEK INN		45.43
1206	AUG-05	WINGATE INN PHOENIX		88.54
1207	JAN-05	WM SUPERCENTER SE2		107.70
1208	MAR-05	WM SUPERCENTER SE2		134.54
1209	APR-05	WM SUPERCENTER SE2		99.67
1210	MAY-05	WM SUPERCENTER SE2		9.08
1211	JUN-05	WM SUPERCENTER SE2		154.66
1212	JUL-05	WM SUPERCENTER SE2		59.04
1213	AUG-05	WM SUPERCENTER SE2		104.40
1214	SEP-05	WM SUPERCENTER SE2		84.00
1215	OCT-05	WM SUPERCENTER SE2		47.52
1216	NOV-05	WM SUPERCENTER SE2		228.68
1217	DEC-05	WM SUPERCENTER SE2		314.80
1218	JAN-05	WOODLANDS PLAZA HOTEL		214.74
1219	FEB-05	WOODLANDS PLAZA HOTEL		143.16
1220	MAR-05	WOODLANDS PLAZA HOTEL		71.58
1221	APR-05	WOODLANDS PLAZA HOTEL		92.50
1222	AUG-05	WOODLANDS PLAZA HOTEL		156.06
1223	OCT-05	WOODLANDS PLAZA HOTEL		838.51
1224	NOV-05	WOODLANDS PLAZA HOTEL		880.94
1225	MAY-05	WOODY'S # 134		2.18
1226	AUG-05	WOODY'S #118		5.24
1227	APR-05	WOODY'S #128		10.34
1228	JUN-05	WOODY'S #128		35.12
1229	MAR-05	YAVAPAI CANTINA		42.00
1230	APR-05	YAVAPAI CANTINA		18.50
1231	NOV-05	YAVAPAI CANTINA		5.75
1232	SEP-05	YC'S MONGOLIAN BARBQ70		19.00
1233	AUG-05	YOSHIS #2		6.70

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1234	JAN-05	ZEKE S EATIN PLACE		\$ 146.36
1235	FEB-05	ZEKE S EATIN PLACE		75.30
1236	APR-05	ZEKE S EATIN PLACE		212.66
1237	JUN-05	ZEKE'S EATIN PLACE		273.34
1238	AUG-05	ZEKE'S EATIN PLACE		219.04
1239	NOV-05	ZEKE'S EATIN PLACE		36.78
1240	JAN-05	EXCHANGE CLUB	284	125.00
1241	MAY-05	EXCHANGE CLUB	320	125.00
1242	JUL-05	EXCHANGE CLUB	367	125.00
1243	NOV-05	FARMER BROTHERS COFFEE	02202167981 093005	65.37
1244	JAN-05	FARMER BROTHERS COFFEE	2493025	192.76
1245	JAN-05	FARMER BROTHERS COFFEE	2493347	168.84
1246	JAN-05	FARMER BROTHERS COFFEE	2493678	159.27
1247	APR-05	FARMER BROTHERS COFFEE	2494319	119.14
1248	APR-05	FARMER BROTHERS COFFEE	2494649	221.93
1249	AUG-05	FARMER BROTHERS COFFEE	2494971	167.05
1250	AUG-05	FARMER BROTHERS COFFEE	2495300	118.37
1251	AUG-05	FARMER BROTHERS COFFEE	2495633	162.46
1252	AUG-05	FARMER BROTHERS COFFEE	2495939	149.52
1253	AUG-05	FARMER BROTHERS COFFEE	2496243	60.43
1254	JAN-05	FLAGSTAFF CHAMBER OF COMMERCE	1014553	800.00
1255	AUG-05	FLAGSTAFF CHAMBER OF COMMERCE	1015606	828.00
1256	SEP-05	FLAGSTAFF CHAMBER OF COMMERCE	1016083	750.00
1257	NOV-05	FOG BAND	111705 50000	250.00
1258	AUG-05	KINGMAN CHAMBER OF COMMERCE	207515	386.00
1259	FEB-05	KINGMAN ROTARY CLUB	020805 15000	150.00
1260	JUN-05	KINGMAN ROTARY CLUB	061505 25000	250.00
1261	AUG-05	KINGMAN ROTARY CLUB	081805 20800	208.00
1262	JAN-05	NILES RADIO	230986	185.00
1263	FEB-05	NILES RADIO	231251	185.00
1264	MAR-05	NILES RADIO	231521	185.00
1265	APR-05	NILES RADIO	231796	185.00
1266	MAY-05	NILES RADIO	232126	185.00
1267	JUN-05	NILES RADIO	232380	185.00
1268	JUL-05	NILES RADIO	232761	185.00
1269	OCT-05	NILES RADIO	233127	185.00
1270	OCT-05	NILES RADIO	233664	185.00
1271	NOV-05	NILES RADIO	233873	555.00
1272	SUB-TOTAL			\$ 106,442.55
AS PER COMPANY RESPONSE TO STAFF DATA REQUEST 5.58				
1273	APR-05	CENTER TIRE		\$ 8.50
1274	MAY05	CITY OF SHOW LOW		225.00
1275	NOV-05	NAU TICKETING		400.00
1276	TOTAL			\$ 107,076.05

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 923

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1	OCT-05	ANGELINAS ITALIAN CUIS		34.45
2	OCT-05	ARIZONA SHUTTLE		21.00
3	DEC-05	AS MECH ENG INTRNATL C		100.33
4	FEB-05	AVIS RENT-A-CAR 1		132.14
5	MAY-05	AVIS RENT-A-CAR 1		121.28
6	MAY-05	BAHAMA BREEZE 00030304		51.16
7	SEP-05	BATTISTA S HOLE IN THE		59.49
8	MAR-05	BEAVER STREET BREWERY		33.00
9	JUL-05	BEAVER STREET BREWERY		29.00
10	NOV-05	BEAVER STREET FAMILY P		75.00
11	MAY-05	BELLE FLEUR WINERY & R		24.77
12	FEB-05	BEST WESTERN HOTELS		69.11
13	FEB-05	BRANDING IRON STKHSE		31.00
14	FEB-05	BUDGET RENT-A-CAR		87.78
15	MAR-05	BUSTER S RESTAURANT		30.50
16	APR-05	BUSTER S RESTAURANT		26.82
17	MAY-05	BUSTER S RESTAURANT		204.98
18	JUN-05	BUSTER S RESTAURANT		43.01
19	OCT-05	BUSTER S RESTAURANT		24.34
20	MAY-05	CALIFORNIA CAFE BAR/GR		22.26
21	MAY-05	CAPIN CAR CARE CENTER		6.00
22	FEB-05	CIRCLE K 00166		20.01
23	MAR-05	CIRCLE K 00166		17.51
24	NOV-05	CIRCLE K 05923		47.61
25	NOV-05	CIRCLE K 08594		38.52
26	FEB-05	CIRCLE K 08772		18.83
27	JUN-05	CLAIM JUMPER #25		26.59
28	JUL-05	COCOS BAKERY RESTAURAN		8.90
29	SEP-05	COCOS BAKERY RESTAURAN		21.13
30	SEP-05	DAMBAR & STEAKHOUSE		23.76
31	MAY-05	DOUBLETREE HOTEL F&B		22.00
32	SEP-05	EMBASSY SUITES FLAGTIP		218.02
33	NOV-05	EMBASSY SUITES FLAGTIP		526.16
34	FEB-05	EXPEDIA*TRAVEL		113.61
35	MAY-05	GAS CITY 615		23.71
36	MAR-05	GOLDEN CORRAL 00007Q15		15.46
37	FEB-05	GOLDEN NUGGET HOTEL		29.62
38	FEB-05	GREAT STEAK AND POTATO		20.00
39	MAR-05	GREAT STEAK AND POTATO		17.90
40	OCT-05	GURLEY STREET GRILL		6.82
41	OCT-05	HASSAYAMPA RESTAURANT		17.59
42	DEC-05	HASSAYAMPA RESTAURANT		14.15
43	FEB-05	HMSHOST-LAS-AIRPT #005		29.00
44	NOV-05	HOLIDAY INN EXPRESSTIP		39.50
45	MAR-05	HOLIDAY INNS EXPRESS		34.58
46	AUG-05	HOTELS.COM - MC		24.50
47	NOV-05	HOUSE OF BREAD		20.65
48	DEC-05	HOUSE OF BREAD		22.02
49	JUL-05	IHOP #3033		7.08
50	JUL-05	JACKSONS GRILL		28.00
51	NOV-05	JACKSONS GRILL		124.18
52	MAY-05	JITTERS GOURMET COFFEE		11.73
53	JUN-05	JUNIPINE CAFE		6.30
54	FEB-05	KINGMAN DELI, THE		24.52
55	NOV-05	KINGMAN DELI, THE		900.00
56	MAY-05	LA VALENCIA HOTEL		47.77
57	FEB-05	LAQUINTA_FLAGSTAFF PAA		102.54
58	FEB-05	LAQUINTA_PHOENIX #0PAA		52.96
59	SEP-05	LAS VEGAS EMBASSY STIP		140.61
60	FEB-05	LICANO'S MEXICAN F		22.00
61	DEC-05	LITTLE AMERICA FLAGSTA		101.60
62	APR-05	LONDON BRIDGE RESORT		115.77
63	FEB-05	LUXOR HOTEL/CASINO		32.00
64	JAN-05	MAIN STREET CATERING		20.82
65	JUL-05	MAIN STREET CATERING		15.80
66	SEP-05	MAIN STREET CATERING		178.97
67	MAY-05	MARRIOTT HOTELS UNIVER		12.27
68	FEB-05	MARRIOTT HOTELS WEST L		263.05
69	FEB-05	MAVERIK CNTRY STRE		29.45
70	FEB-05	MURPHYS		61.66
71	JAN-05	OGDENS CLEANERS		20.00
72	FEB-05	OLD PUEBLO GRILLE		31.86
73	SEP-05	OPEN ROAD TOURES INC		125.00
74	JUN-05	OUR DAILY BREAD		177.60
75	SEP-05	OUR DAILY BREAD		26.62
76	FEB-05	OUR DAILY BREAD DELI		46.55
77	MAR-05	OUR DAILY BREAD DELI		114.80
78	DEC-05	PAYPAL *WIDESCANINC		100.00
79	AUG-05	PRESCOTT CONVENTION CT		388.91
80	DEC-05	PRESCOTT CONVENTION CT		42.59
81	NOV-05	PRESCOTT COURIER-ADVER		118.30
82	FEB-05	PRESCOTT RESORT & CONV		111.18
83	NOV-05	PRESCOTT TRUE VALUE HA		560.79
84	JUL-05	QUALITY INN		73.13
85	SEP-05	RADIO SHACK 00134718		107.85
86	MAR-05	RADISSON HOTELS-WOODLA		57.00
87	JUL-05	RADISSON HOTELS-WOODLA		29.00
88	NOV-05	RADISSON HOTELS-WOODLA		12.95

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 923

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
89	MAY-05	RED ROBIN NO 67		\$ 64.73
90	OCT-05	RODS STEAK HOUSE		58.57
91	FEB-05	RULA BULA, TEMPE IRISH		35.30
92	FEB-05	SAFEWAY STORE00020289		10.25
93	JUL-05	SAFEWAY STORE00020289		8.75
94	SEP-05	SAFEWAY STORE00020289		11.53
95	FEB-05	SHUGRUE'S HILLSIDE GRI		41.59
96	JUL-05	SHUGRUES RESTAURANT		39.42
97	SEP-05	SHUGRUES RESTAURANT		135.76
98	APR-05	SKY HARBOR AIRPORT T4		63.00
99	FEB-05	SOUTHWES 5262738944536		109.20
100	FEB-05	SUBWAY # 12395 Q16		6.21
101	SEP-05	SUNSPOTS PRODUCTIONS I		356.50
102	DEC-05	SUNSPOTS PRODUCTIONS I		427.00
103	MAR-05	SUPERSHUTTLE BALT		31.00
104	MAR-05	TARGET 00009357		37.83
105	JUL-05	THE AGAVE INN		54.83
106	SEP-05	THE AGAVE INN		109.67
107	OCT-05	THE AGAVE INN		54.83
108	NOV-05	THE AGAVE INN		54.83
109	MAR-05	THE OLIVE GARD00015131		33.00
110	FEB-05	TUCSON AIRPORT TRMNL P		12.00
111	MAY-05	TUCSON AIRPORT TRMNL P		16.00
112	OCT-05	WESTIN KIERLAND RESTIP		136.17
113	JUL-05	WINDROCK AVIATION		332.00
114	FEB-05	WLI*RESERVATIONREWARDS		7.00
115	FEB-05	WOODLANDS PLAZA HOTEL		223.16
116	MAR-05	WOODLANDS PLAZA HOTEL		497.90
117	JUN-05	WOODLANDS PLAZA HOTEL		89.61
118	JUL-05	WOODLANDS PLAZA HOTEL		162.47
119	SEP-05	YAVAPAI BUS TOURS		235.00
120	APR-05	ENTERPRISE RENT A CAR	L67392 0305	666.78
121	AUG-05	ENTERPRISE RENT A CAR	JULY 2005	120.58
122	DEC-05	ENTERPRISE RENT A CAR	113005 1752985	202.77
123	JAN-05	ENTERPRISE RENT A CAR	D048904-271T	202.77
124	JUL-05	ENTERPRISE RENT A CAR	JUNE 2005	204.00
125	JUN-05	ENTERPRISE RENT A CAR	MAY 2005	196.11
126	MAR-05	ENTERPRISE RENT A CAR	DEC-04	202.77
127	MAR-05	ENTERPRISE RENT A CAR	FEB-05	269.19
128	MAR-05	ENTERPRISE RENT A CAR	JAN-05	795.33
129	NOV-05	ENTERPRISE RENT A CAR	103105 915873	312.63
130	OCT-05	ENTERPRISE RENT A CAR	SEPT 2005	148.11
131	SEP-05	ENTERPRISE RENT A CAR	AUGUST 2005	182.16
132	MAY-05	HOLIDAY INN	apr 06	314.56
133	DEC-05	NILES RADIO	234190	185.00
134	APR-05	PARKS AND RECREATION	041905 3000	30.00
135	APR-05	PARKS AND RECREATION	041905 5000	50.00
136	FEB-05	PETTY CASH	RPC39040NEVENHOVEN	9.00
137	MAR-05	SIMPLY DELICIOUS	82001 0205	102.50
138	TOTAL			\$ 14,738.15

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 926

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	NET AMOUNT
1	OCTOBER 2005	LAKE HAVASU RETIREMENT LUNCHEON FOR BRENDA BARRANCO PAOD TO CASA SERRANO	\$ 100.00
2	DECEMBER 2005	VERDE VALLEY GAS EMPLOYEE APPRECIATION DINNER PAID TO SU CASA RESTAURANT	379.51
3	DECEMBER 2005	PRESCOTT GAS EMPLOYEE APPRECIATION DINNER PAID FOR RELATED DINNER EXPENSES	5,750.00
4	TOTAL		<u>\$ 6,229.51</u>

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 930

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
1	FEB-05	050 WORLD MKT 00000505		\$ 8.00
2	JAN-05	ALBERTSONS #967 S9H		19.97
3	MAR-05	ALFONSO S		7.00
4	JUL-05	ALFONSO S		9.32
5	OCT-05	ALFONSO S		5.68
6	APR-05	ALIBERTOS MEXICAN FOOD		8.94
7	SEP-05	AMERICA		335.00
8	FEB-05	AMERISUITES - FF		139.82
9	MAY-05	AMERISUITES - FF		59.46
10	OCT-05	AMERISUITES - FF		88.09
11	MAR-05	ARIZONA DAILY SUN-INTE		2.95
12	OCT-05	BARLEY BROTHERS BREWER		106.59
13	AUG-05	BARRIO		22.00
14	FEB-05	BASHA S 18 SYW		10.87
15	JUN-05	BASHAS 53 SYW		7.83
16	DEC-05	BASHAS 67 SYW		13.59
17	JUN-05	BEAVER STREET BREWERY		35.79
18	MAR-05	BEST WESTERN ADOBE INN		504.12
19	JUL-05	BEST WESTERN ADOBE INN		162.14
20	NOV-05	BEST WESTERN ADOBE INN		133.26
21	JUL-05	BISON WITCHES BAR & DE		32.17
22	NOV-05	BOJOS GRILL		14.00
23	NOV-05	BRUEGGERS BAGEL BAKERY		13.83
24	SEP-05	BUDGET RENT-A-CAR		113.08
25	JAN-05	BUSTER S RESTAURANT		121.82
26	JUN-05	BUSTER S RESTAURANT		30.12
27	SEP-05	BUSTER S RESTAURANT		24.21
28	NOV-05	BUSTER S RESTAURANT		158.70
29	DEC-05	BUSTER S RESTAURANT		68.20
30	FEB-05	CAFE ESPRESS		16.72
31	MAR-05	CAREER STYLES ETC		78.73
32	APR-05	CHILI'S GRI04900010496		49.84
33	FEB-05	CHILI'S GRI41600004168		11.87
34	JUN-05	CIRCLE K 01116		1.53
35	JUN-05	CIRCLE K 01846		1.61
36	JUN-05	CIRCLE K 06665		3.16
37	MAR-05	CITY PRESS		663.10
38	FEB-05	CLIFF CASTLE CASINO		145.00
39	SEP-05	COCOS BAKERY RESTAURAN		34.49
40	JUL-05	COMFORT INN		236.96
41	JUN-05	COMFORT INNS/SUITES TU		61.20
42	OCT-05	CRACKER BARREL #344		23.31
43	NOV-05	DAIRY QUEEN-18047 Q35		3.51
44	MAY-05	DAMBAR & STEAKHOUSE		104.93
45	OCT-05	DAMBAR & STEAKHOUSE		230.07
46	AUG-05	DENNY'S 00269134		14.11
47	JAN-05	DESERT DIAMOND CASINO		807.12
48	JUL-05	DOC HOLLIDAYS STEAK HO		23.98
49	FEB-05	DOLRTREE 2679 00026799		19.46
50	MAY-05	DOLRTREE 2679 00026799		12.98
51	JUN-05	EINSTEIN BROS #2081		5.59
52	MAR-05	EL FALCONE		31.02
53	NOV-05	EL FALCONE		11.34
54	APR-05	EL ZARAPE		63.90
55	AUG-05	ENOTECA PIZZARIA WINE		17.92
56	SEP-05	ENOTECA PIZZARIA WINE		13.92
57	NOV-05	ENTERPRISE RENT-A-CAR		41.78
58	FEB-05	FARR S SERVICE		36.50
59	MAY-05	FAZOLIS RESTAURANT NO		27.59
60	SEP-05	FAZOLIS RESTAURANT NO		18.12
61	NOV-05	FLAGSTAFF CHAMBER OF C		280.00
62	OCT-05	FLAGSTAFF TOYS FOR TOT		1,000.00
63	JUL-05	FLYING J COUNTRY MARKE		15.43
64	APR-05	GARRETT'S SUPERMARKS1B		13.16
65	NOV-05	GOLDEN CORRAL 29724Q15		14.21
66	MAR-05	HMSHOST-PHX-AIR #00		29.05
67	DEC-05	HOLIDAY INN TUCSON		263.39
68	JUN-05	HOLIDAY INN-AIRPORT		149.70
69	JUL-05	HOLIDAY INNS		101.31
70	AUG-05	HOLIDAY INNS		202.62
71	JUL-05	HOLIDAY INNS EXPRESS		120.75
72	NOV-05	HOLIDAY INNS EXPRESS		758.60
73	SEP-05	HON-DAH RESORT CASINO		96.00
74	APR-05	HOUSE OF BREAD		29.73
75	MAY-05	HOUSE OF BREAD		130.28
76	JUN-05	HOUSE OF BREAD		79.13
77	AUG-05	HOUSE OF BREAD		21.75
78	SEP-05	HOUSE OF BREAD		51.50
79	OCT-05	HOUSE OF BREAD		310.78
80	NOV-05	HOUSE OF BREAD		165.19
81	NOV-05	HOWARD JOHNSON EXPRESS		110.90
82	APR-05	IHOP #1524 21815246		26.69

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 930

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
83	JUL-05	JACK INTHE BOX07811Q43		\$ 7.09
84	AUG-05	JACK INTHE BOX07811Q43		9.55
85	OCT-05	JACK POTS PORTABLES		195.00
86	MAY-05	JASON'S DELI		43.20
87	FEB-05	JAVELINA CANTINA		57.18
88	NOV-05	JAVELINA CANTINA SED		41.17
89	OCT-05	JOHN ASCUAGA'S NUGGET		374.47
90	JUN-05	KAREN SORENSEN ENT		1,193.34
91	NOV-05	KFC #K 201002 46710Q30		7.32
92	FEB-05	KINGMAN CHAMBER OF COM		200.00
93	MAR-05	KINGMAN CHAMBER OF COM		200.00
94	MAR-05	KIOWA DRIVE THRU MINI		2.94
95	OCT-05	KMART 00037077		20.18
96	APR-05	KMART 00039230		25.12
97	MAY-05	KMART 00095281		16.12
98	JUN-05	LA COCINA DE EVA		29.13
99	MAY-05	LA FONDA		98.29
100	FEB-05	LA SANDIA CAFE		9.86
101	JUL-05	LAQUINTA_FLAGSTAFF PAA		101.09
102	OCT-05	LAQUINTA_FLAGSTAFF PAA		181.88
103	NOV-05	LAQUINTA_FLAGSTAFF PAA		134.60
104	APR-05	LAS VIGAS STEAK RANCH		20.64
105	APR-05	LITTLE AMERICA FLAGSTA		5.68
106	JUL-05	LITTLE AMERICA FLAGSTA		37.87
107	SEP-05	LODGE ON ROUTE 66		68.94
108	OCT-05	LODGE ON ROUTE 66		206.82
109	OCT-05	LONDON BRIDGE RESORT		109.67
110	OCT-05	LOVE S COUNTRY00002Q01		10.46
111	APR-05	LU MANDARIN BUFFET		33.01
112	OCT-05	LU MANDARIN BUFFET		8.64
113	APR-05	MAIN STREET CATERING		93.13
114	MAY-05	MALONES BAKERY & D		31.32
115	JUL-05	MALONES BAKERY & D		29.62
116	NOV-05	MALONES BAKERY & D		13.77
117	DEC-05	MALONES BAKERY & D		24.23
118	OCT-05	MAMMA LUISA ITALIAN RE		189.01
119	JUN-05	MAVERIK CTRY STRE #137		1.42
120	JUN-05	MAVERIK CTRY STRE #288		48.70
121	SEP-05	MAVERIK CTRY STRE #288		17.25
122	JUL-05	MCDONALD'S F12211 Q17		10.93
123	DEC-05	MCDONALD'S F8259		14.68
124	MAR-05	MONTANA STEAK HOUSE		32.19
125	MAR-05	MUDSHARK BREWING CO		59.08
126	APR-05	MUDSHARK BREWING CO		40.59
127	MAY-05	N A U FOUNDATION		750.00
128	OCT-05	N AWLINS ON MONTEZUMA		600.00
129	NOV-05	N AWLINS ON MONTEZUMA		340.70
130	OCT-05	NAU MANAGEMENT DVLPMEN		620.00
131	MAR-05	NILES RADIO		20.54
132	APR-05	NILES RADIO		155.69
133	NOV-05	OAXACA RESTAURANTE		117.97
134	JUN-05	OLD PUEBLO GRILLE		37.14
135	NOV-05	OLD PUEBLO GRILLE		39.72
136	DEC-05	OLSEN'S GRAIN		27.03
137	AUG-05	OREGANOS		54.86
138	NOV-05	OREGANOS		40.12
139	JUN-05	OUR DAILY BREAD		392.64
140	JUL-05	OUR DAILY BREAD		343.30
141	SEP-05	OUR DAILY BREAD		476.56
142	OCT-05	OUR DAILY BREAD		333.11
143	NOV-05	OUR DAILY BREAD		138.83
144	DEC-05	OUR DAILY BREAD		625.36
145	FEB-05	OUR DAILY BREAD DELI		217.06
146	FEB-05	OUTBACK #0317		16.29
147	NOV-05	PAPA JOHN'S PIZZA #288		15.09
148	JAN-05	PETRO 15 TRUCKER STORE		38.08
149	OCT-05	PINE COUNTRY RESTAURAN		32.42
150	AUG-05	PINETOP-LAKESIDE C		475.00
151	JUL-05	PIZZA FACTORY		23.91
152	MAR-05	PIZZA HUT 21200Q34		16.13
153	JUL-05	PIZZA HUT #43 57400Q34		9.64
154	JUN-05	PIZZA HUT OF TAYLOR		20.35
155	OCT-05	RA@RENO TAHOE AIRPORT		18.72
156	FEB-05	RADISSON HOTELS-WOODLA		79.50
157	JAN-05	RAMADA EXPRESS HOTEL		27.25
158	OCT-05	RED LOBSTER US00008458		19.51
159	MAR-05	RED ROBIN NO 309		150.71
160	DEC-05	RENTS AND TENTS		41.25
161	MAR-05	RESIDENCE INNS-TUCSON		334.17
162	MAY-05	RINCON MARKET		155.16
163	APR-05	RIO RICO RESORT		33.34
164	APR-05	RIO RICO RESORT RESTAU		0.00
165	SEP-05	RODS STEAK HOUSE		22.70
166	JUL-05	ROSA'S CANTINA		20.00

WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 930

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
167	NOV-05	RUBIO'S AGUA FRIA #52		\$ 11.85
168	DEC-05	RUBIO'S AHWATUKEE #35		4.31
169	JUN-05	SAFEWAY STORE00016394		83.42
170	OCT-05	SAFEWAY STORE00016394		4.55
171	MAR-05	SAFEWAY STORE00017335		30.55
172	JUN-05	SAFEWAY STORE00017335		85.07
173	JUL-05	SAFEWAY STORE00017335		13.24
174	SEP-05	SAFEWAY STORE00017335		12.53
175	OCT-05	SAFEWAY STORE00017335		19.34
176	NOV-05	SAFEWAY STORE00018879		10.39
177	JAN-05	SAFEWAY STORE00020289		14.96
178	FEB-05	SAFEWAY STORE00020289		12.50
179	APR-05	SAFEWAY STORE00020289		64.96
180	JUN-05	SAFEWAY STORE00020289		48.07
181	JUL-05	SAFEWAY STORE00020289		37.64
182	SEP-05	SAFEWAY STORE00020289		17.98
183	OCT-05	SAFEWAY STORE00020289		138.45
184	NOV-05	SAFEWAY STORE00020289		30.20
185	DEC-05	SAFEWAY STORE00020289		26.85
186	OCT-05	SAFEWAY STORE00031898		23.71
187	MAY-05	SALSA BRAVA INC.-2		42.15
188	OCT-05	SEDONA-OAK CREEK CAN C		450.00
189	JUL-05	SHOW LOW CHAMBER O		435.00
190	OCT-05	SMITHS FOOD #4188 SS6		65.25
191	NOV-05	SMITHS FOOD #4188 SS6		10.63
192	APR-05	SONIC DRIVE IN #483Q63		13.95
193	APR-05	SPRING HILL PRESS,		1,000.00
194	NOV-05	SPRINGHILL SUITES -PRE		99.24
195	MAR-05	SUBWAY 14220 Q16		8.28
196	JUN-05	SUBWAY 25137 Q16		2.69
197	OCT-05	SUBWAY 30031		4.11
198	JAN-05	SWEET & SUBS		25.89
199	FEB-05	SWEET & SUBS		14.06
200	SEP-05	TEMPE MISSION PALMS HO		443.67
201	OCT-05	THE AGAVE INN		54.84
202	OCT-05	THE HOME DEPOT 403		203.02
203	SEP-05	THE SIZZLER		41.77
204	SEP-05	THE WEATHFORD HOTE		33.97
205	NOV-05	THE WEATHFORD HOTE		80.73
206	DEC-05	THE WEATHFORD HOTE		2,075.31
207	OCT-05	TOMAHAWK TRUCK STOP		28.48
208	FEB-05	TRAPPERS CAFE		30.30
209	JUN-05	TRAPPERS CAFE		20.54
210	DEC-05	VILLA PIZZA #1201		5.25
211	MAY-05	VZW*MU 000013822		32.38
212	FEB-05	WALGREEN 00052217		23.46
213	OCT-05	WALGREEN 00052Q39		71.75
214	DEC-05	WAL-MART #1175		71.00
215	MAY-05	WAL-MART #1230 SE2		29.97
216	JUN-05	WAL-MART #1230 SE2		28.82
217	JUL-05	WAL-MART #1417 SE2		8.06
218	OCT-05	WAL-MART #5329 SE2		13.79
219	JAN-05	WAL-MART STORES, INSE2		55.06
220	FEB-05	WAL-MART STORES, INSE2		16.65
221	APR-05	WEATHERFORD HOTEL & CA		167.47
222	SEP-05	WEATHERFORD HOTEL & CA		83.03
223	APR-05	WENDYS		4.29
224	APR-05	WENDYS #2663 Q25		2.30
225	NOV-05	WENDYS #6710 Q25		10.87
226	JUL-05	WESTERN ENERGY INST		3,570.00
227	APR-05	WESTSIDE LILO'S CA		37.76
228	MAR-05	WILLIAMS GRAND CANYON		236.90
229	MAY-05	WILLIAMS-GRAND CANYON		180.00
230	DEC-05	WINDROCK AVIATION		1,246.15
231	FEB-05	WM SUPERCENTER SE2		40.99
232	AUG-05	WM SUPERCENTER SE2		10.45
233	SEP-05	WM SUPERCENTER SE2		23.99
234	OCT-05	WM SUPERCENTER SE2		14.04
235	NOV-05	WM SUPERCENTER SE2		9.53
236	DEC-05	WM SUPERCENTER SE2		23.98
237	FEB-05	WOODLANDS PLAZA HOTEL		71.58
238	OCT-05	WOODLANDS PLAZA HOTEL		143.16
239	NOV-05	WOODLANDS PLAZA HOTEL		357.90

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 930

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
240	SEP-05	CHINO VALLEY AREA CHAMBER OF COMMERCE	06-239	215.00
241	AUG-05	COCONINO HIGH SCHOOL ACTIVITIES	072805 20000	200.00
242	FEB-05	COZ CREATIVE COMMUNICATIONS LP	TEP0207-0193	25.00
243	JUL-05	COZ CREATIVE COMMUNICATIONS LP	TEP0708-0223	1,700.00
244	JUL-05	COZ CREATIVE COMMUNICATIONS LP	TEP0719-0230	600.00
245	MAY-05	DANCES WITH OPPORTUNITY LLC	A41405	3,661.25
246	JUL-05	DAVID SANDERS PHOTOGRAPHY	85000 071205	850.00
247	JAN-05	DAY NITE DESIGN	1685	146.25
248	JAN-05	DAY NITE DESIGN	1698	749.95
249	JAN-05	DAY NITE DESIGN	1712	376.20
250	JAN-05	DAY NITE DESIGN	1718	227.50
251	DEC-05	ENTERPRISE RENT A CAR	113005 1752985	17,529.85
252	APR-05	FLAGSTAFF CHAMBER OF COMMERCE	041305	100.00
253	MAY-05	FLAGSTAFF CHAMBER OF COMMERCE	1015283	1,200.00
254	JUN-05	GREATER FLAGSTAFF ECONOMIC COUNCIL	189	2,500.00
255	NOV-05	GREATER FLAGSTAFF ECONOMIC COUNCIL	305	350.00
256	JUN-05	IBA PUBLISHING INC	Fm-06-134	325.00
257	JUN-05	KAZM RADIO	5185	1,045.50
258	DEC-05	MAYER AREA CHAMBER OF COMMERCE	122705 7200	72.00
259	JAN-05	MINKUS ADVERTISING SPECIALTIES	045500	1,907.70
260	JAN-05	MINKUS ADVERTISING SPECIALTIES	045501	452.70
261	APR-05	MINKUS ADVERTISING SPECIALTIES	051157	1,075.49
262	APR-05	MINKUS ADVERTISING SPECIALTIES	051274	618.70
263	APR-05	MINKUS ADVERTISING SPECIALTIES	051304	484.20
264	APR-05	MINKUS ADVERTISING SPECIALTIES	051305	80.70

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WORKPAPER FOR RUCO ADJUSTMENT TO REMOVE UNNECESSARY/INAPPROPRIATE EXPENSES
EXPENSES REMOVED FROM ACCOUNT 930

LINE NO.	GENERAL LEDGER PERIOD	PA EXPENDITURE COMMENT	INVOICE NUMBER	NET AMOUNT
265	APR-05	MINKUS ADVERTISING SPECIALTIES	051306	\$ 161.40
266	JUL-05	MINKUS ADVERTISING SPECIALTIES	051849A	439.13
267	NOV-05	MINKUS ADVERTISING SPECIALTIES	055156	284.75
268	NOV-05	MINKUS ADVERTISING SPECIALTIES	055157	515.11
269	JAN-05	NILES RADIO	72492	68.25
270	JAN-05	NILES RADIO	230383	185.00
271	JAN-05	NILES RADIO	230496	140.00
272	JAN-05	NILES RADIO	230588	185.00
273	FEB-05	NILES RADIO	1110591	292.53
274	MAR-05	NILES RADIO	230264	243.92
275	MAR-05	NILES RADIO	1110591	292.53
276	APR-05	NILES RADIO	231795	185.00
277	MAY-05	NILES RADIO	232125	185.00
278	JUN-05	NILES RADIO	232379	185.00
279	JUL-05	NILES RADIO	232760	185.00
280	AUG-05	NILES RADIO	232855	364.92
281	AUG-05	NILES RADIO	233126	185.00
282	SEP-05	NILES RADIO	233405	185.00
283	OCT-05	NILES RADIO	233663	185.00
284	NOV-05	NILES RADIO	233942	185.00
285	DEC-05	NILES RADIO	234189	185.00
286	FEB-05	PRESCOTT CHAMBER OF COMMERCE	38600	386.00
287	JAN-05	PRESCOTT VALLEY CHAMBER OF COMMERCE	55000 011705	550.00
288	FEB-05	SELIGMAN CHAMBER OF COMMERCE	021605 4000	40.00
289	SEP-05	SHOW LOW GIRLS SOCCER BOOSTER CLUB	090205 2500	25.00
290	JUN-05	SHOW LOW MAIN STREET	25000 062105	250.00
291	SEP-05	SHOW LOW MAIN STREET	090105 35000	350.00
292	OCT-05	SHOW LOW MAIN STREET	100405 2500	25.00
293	JAN-05	WHITE MOUNTAIN REGIONAL DEVELOPMENT CORP	415	1,100.00
294	TOTAL			\$ 76,494.47

**OPERATING INCOME ADJUSTMENT NO. 7
PROPERTY TAX COMPUTATION**

LINE NO.	DESCRIPTION	(A)	(B)
	Calculation Of The Company's Full Cash Value:		
1	Net Plant In Service (RLM-3, Column (H), Line 7)		\$ 161,045,981
2	Licensed Transportation (Company Workpapers)	\$ (3,224,086)	
3	Land Cost And Rights (Company Workpapers)	(414,955)	
4	Environmental Property (Company Workpapers)	(3,766,890)	
5	Land FCV Per ADOR (Company Workpapers)	697,806	
6	Material And Supplies (Company Workpapers)	2,039,798	
7	COMPANY'S FULL CASH VALUE (Sum Of Lines 1 Thru 6)		<u>\$ 156,377,654</u>
	Calculation Of The Company's Tax Liability:		
8	Assessment Ratio (Per House Bill 2779)	24.0%	
9	Assessed Value (Line 7 X Line 8)	\$ 37,530,637	
10	Average Tax Rate (Company Workpapers)	9.47%	
13	PROPERTY TAX Excluding Environmental Property (Line 9 X Line 10)		\$ 3,555,915
14	Environmental Property (Line 4)	\$ 3,766,890	
15	Statutory FCV Adjustment (Company Workpapers)	50%	
16	Environmental Property FVC (Line 14 X Line 15)	\$ 1,883,445	
17	Assessment Ratio Line 8)	24.0%	
18	Taxable Value (Line 16 X Line 17)	\$ 452,027	
19	Average Tax Rate (Company Workpapers)	9.47%	
20	PROPERTY TAX On Environmental Property (Line 18 X Line 19)		\$ 42,828
21	PROPERTY TAX On Leased Property (Company Workpapers)		
22	COMPANY PROPERTY TAX LIABILITY (Sum Of Lines 13, 20 & 21)		<u>\$ 3,598,743</u>
23	Test Year Adjusted Property Tax Expense Per Company's Filing (Co. Workpapers Pg 2, L 2)	\$ 3,908,052	
24	Decrease In Property Tax Expense (Line 22 - Line 23)	\$ (309,309)	
25	RUCO ADJUSTMENT TO PROPERTY TAX EXPENSE (Line 24) (See RLM-7, Pages 1 & 2, Column (H))		<u>\$ (309,309)</u>

**ADJUSTMENT TO REMOVE NON-RECURRING/ATYPICAL EXPENSES
EXPENSES REMOVED FROM ACCOUNT 921**

LINE NO.	(A) GENERAL LEDGER PERIOD	(B) PA EXPENDITURE COMMENT	(C) NOTES	(D) NET AMOUNT
1	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	\$ 270.48
2	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	197.58
3	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	151.50
4	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	151.50
5	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	151.50
6	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	108.68
7	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	225.27
8	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	296.37
9	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	227.25
10	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	303.00
11	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	98.79
12	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	98.79
13	11/14/2005	HOLIDAY INNS EXPRESS	M.A.R.C. Training (Union Training)	303.00
14	TOTAL		Sum Of Lines 1 Thru 13	\$ 2,583.71
15	RUCO Adjustment (See RLM-7, Pages 3 & 4, Column (K))		Line 14	\$ (2,584)

OPERATING INCOME ADJUSTMENT NO. 22
INCOME TAX EXPENSE

LINE NO.	DESCRIPTION	(A) REFERENCE	(B) AMOUNT
FEDERAL INCOME TAXES:			
1	Operating Income Before Taxes	Schedule RLM-6, Column (C), Line 10 + Line 8	\$ 14,366,885
LESS:			
2	Arizona State Tax	Line 11	(687,052)
3	Interest Expense	Note (A) Line 22	(4,506,788)
4	Federal Taxable Income	Sum Of Lines 1, 2 & 3	\$ 9,173,045
5	Federal Tax Rate	Schedule RLM-2, Column (A), Line 9	34.00%
6	Federal Income Tax Expense	Line 4 X line 5	\$ 3,118,835
STATE INCOME TAXES:			
7	Operating Income Before Taxes	Line 1	\$ 14,366,885
LESS:			
8	Interest Expense	Note (A) Line 22	(4,506,788)
9	State Taxable Income	Line 7 + Line 8	\$ 9,860,097
10	State Tax Rate	Tax Rate	6.9680%
11	State Income Tax Expense	Line 9 X Line 10	\$ 687,052
TOTAL INCOME TAX EXPENSE:			
12	Federal Income Tax Expense	Line 6	\$ 3,118,835
13	State Income Tax Expense	Line 11	687,052
14	Total Income Tax Expense Per RUCO	Sum Of Lines 12 & 13	\$ 3,805,887
15	Total Income Tax Expense Per Company Filing (Schedule C-1)		1,975,497
16	Difference	Line 14 - Line 15	\$ 1,830,390
17	RUCO ADJUSTMENT TO INCOME TAX EXPENSE (See RLM 7, Page 6, Column (W))	Line 16	\$ 1,830,390
NOTE (A):			
Interest Synchronization:			
18	Adjusted Rate Base (Schedule RLM-3, Column (H), Line 16)	\$ 144,680,196	
19	Weighted Cost Of Debt (Schedule RLM-16, Column (F), Line 1 + Line 2)	3.12%	
20	Interest Expense (Line 20 X Line 21)	\$ 4,506,788	

RATE DESIGN AND PROOF OF RUO RECOMMENDED REQUIRED REVENUE

LINE NO.	(A) DESCRIPTION	(B) SCH. NO.	(C) RUO ANNUALIZED WEATHERIZED ADJUSTED BILL COUNT	(D) SALES (THERMS)	(E) PROPOSED MARGIN RATES BASIC SERVICE CHARGE	(F) COM. CHARGE	(G) BASIC SERVICE CHARGE	(H) COMMODITY CHARGE	(I) TOTAL MARGIN	(J) FIXED ALLOCATION FACTORS	(K) VARIABLE ALLOCATION FACTORS	(L) RES/COM ALLOCATION FACTORS
1	Residential Service	R-10										
2	Basic Service Charge per Month - Summer		973,181		\$ 8.13		\$ 7,908,119		\$ 7,908,119	64.11%		
3	Basic Service Charge per Month - Winter		496,838		\$ 8.13		\$ 4,029,208		\$ 4,029,208	32.67%		
4	Commodity Charge All Therms			69,822,061		\$ 0.28916		\$ 20,189,803	\$ 20,189,803		97.17%	
	Total Residential Service		1,469,020	69,822,061			\$ 11,937,327	\$ 20,189,803	\$ 32,127,130			
5	Residential Service Cares	R-12										
6	Basic Service Charge per Month - Summer		33,439		\$ 8.13		\$ 271,728		\$ 271,728	2.20%		
7	Basic Service Charge per Month - Winter		15,476		\$ 8.13		\$ 125,756		\$ 125,756	1.02%		
8	Commodity Charge All Therms			2,036,847		\$ 0.28916		\$ 589,978	\$ 589,978		2.83%	
	Total Residential Service Cares		48,915	2,036,847			\$ 397,486	\$ 589,978	\$ 986,463			
9	SUB-TOTAL RESIDENTIAL		1,517,935	71,858,907			\$ 12,334,813	\$ 20,778,780	\$ 33,113,593	100.00%	100.00%	70.00%
10	Small Volume Commercial Service	C-20										
11	Basic Service Charge per Month		133,275		\$ 33.58	\$ 0.18147	\$ 4,475,732	\$ 5,334,006	\$ 4,475,732	84.87%		
12	Commodity Charge per Therm			29,382,577			\$ 4,475,732	\$ 5,334,006	\$ 5,334,006		59.80%	
13	Total Small Volume Commercial Service		133,275	29,382,577			\$ 4,475,732	\$ 5,334,006	\$ 9,809,738			
14	Large Volume Commercial Service & Trans	C-22										
15	Basic Service Charge per Month		225		\$ 258.32	\$ 0.11617	\$ 58,061	\$ 484,555	\$ 58,061	1.10%		
16	Commodity Charge per Therm			4,170,979			\$ 484,555	\$ 484,555	\$ 484,555		5.44%	
17	Total Large Volume Commercial Service		225	4,170,979			\$ 542,616	\$ 484,555	\$ 542,616			
18	Small Volume Industrial Service	I-30										
19	Basic Service Charge per Month		146		\$ 33.58		\$ 4,920		\$ 4,920	0.09%		
20	Commodity Charge per Therm			474,830		\$ 0.17065	\$ 8,102	\$ 8,102	\$ 8,102		0.91%	
21	Total Small Volume Industrial Service		146	474,830			\$ 12,922	\$ 8,102	\$ 12,922			
22	Large Volume Industrial Service	I-32										
23	Basic Service Charge per Month		238		\$ 258.32	\$ 0.06510	\$ 61,558	\$ 1,470,481	\$ 61,558	1.16%		
24	Commodity Charge per Therm			22,596,654			\$ 1,470,481	\$ 1,470,481	\$ 1,470,481		16.51%	
25	Total Large Volume Industrial Service		238	22,596,654			\$ 1,532,039	\$ 1,470,481	\$ 1,532,039			
26	Small Volume Public Authority	PA-40										
27	Basic Service Charge per Month		12,795		\$ 33.58	\$ 0.17796	\$ 429,693	\$ 1,044,703	\$ 429,693	8.13%		
28	Commodity Charge per Therm			5,870,369			\$ 1,044,703	\$ 1,044,703	\$ 1,044,703		11.73%	
29	Total Small Volume Public Authority		12,795	5,870,369			\$ 1,474,395	\$ 1,044,703	\$ 1,474,395			
30	Large Volume Public Authority	PA-42										
31	Basic Service Charge per Month		113		\$ 258.32	\$ 0.08012	\$ 29,080	\$ 473,210	\$ 29,080	0.55%		
32	Commodity Charge per Therm			5,908,070			\$ 473,210	\$ 473,210	\$ 473,210		5.31%	
33	Total Large Volume Public Authority		113	5,908,070			\$ 502,290	\$ 473,210	\$ 502,290			
34	Special Gas Light Service	PA-44										
35	Customer Charge Lighting Group A		866		\$ 41.80		\$ 36,215		\$ 36,215	0.65%		
36	Customer Charge Lighting Group B		3,767		\$ 50.15		\$ 188,877		\$ 188,877	3.57%		
37	Total Special Gas Light Service		4,633				\$ 225,093	\$ -	\$ 225,093			
38	Irrigation Service	IR-60										
39	Basic Service Charge per Month		66		\$ 33.58	\$ 0.21671	\$ 2,212	\$ 17,209	\$ 2,212	0.04%		
40	Commodity Charge per Therm			79,409			\$ 17,209	\$ 17,209	\$ 17,209		0.19%	
41	Total Irrigation Service		66	79,409			\$ 19,421	\$ 17,209	\$ 19,421	100.00%	100.00%	30.00%
42	SUB-TOTAL COMMERCIAL		151,491	66,480,887			\$ 5,286,349	\$ 8,905,191	\$ 14,191,540			
43	TOTAL TARIFF SALES		1,689,426	140,339,796			\$ 17,821,162	\$ 28,683,971	\$ 47,305,133			
44	OTHER REVENUE								\$ 1,480,304			
45	TOTAL REVENUE								\$ 48,785,437			
46	RUO PROPOSED REVENUE								\$ 48,785,437			
47	DIFFERENCE								\$ -			

TYPICAL RESIDENTIAL BILL ANALYSIS

		(A)	(B)	(C)	(D)	(E)	(F)
LINE NO.	DESCRIPTION	PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
REVENUE ALLOCATION							
1	RESIDENTIAL	\$ 31,123,034	70.02%	\$ 39,021,053	70.19%	\$ 33,113,593	70.00%
2	OTHER	\$ 13,323,588	29.98%	\$ 16,573,116	29.81%	\$ 14,191,540	30.00%
3	TOTAL	<u>\$ 44,446,622</u>	<u>100.00%</u>	<u>\$ 55,594,169</u>	<u>100.00%</u>	<u>\$ 47,305,133</u>	<u>100.00%</u>
ALLOCATION RATIOS							
4	FIX REVENUE	12,110,551	27.25%	\$ 28,769,014	51.70%	\$ 17,621,162	37.25%
5	VARIABLE REVENUE	32,336,071	72.75%	\$ 26,879,714	48.30%	\$ 29,683,971	62.75%
6	TOTAL	<u>44,446,622</u>	<u>100.00%</u>	<u>\$ 55,648,727</u>	<u>100.00%</u>	<u>\$ 47,305,133</u>	<u>100.00%</u>
RESIDENTIAL RATE DESIGN							
	BASIC MONTHLY CHARGE	PRESENT		COMPANY PROPOSED		RUCO PROPOSED	
7	SUMMER	\$ 7.00		MONTHS 8	\$ 20.00	\$ 8.13	
8	WINTER	\$ 7.00		MONTHS 4	\$ 11.00	\$ 8.13	
9	COMMODITY CHARGE	\$ 0.3004			\$ 0.18625	0.2892	
RESIDENTIAL BILL COMPARISONS							
	GAS CHARGE AT MARGIN + PGA COSTS AT DIFFERENT LEVELS OF USAGE WITH PERCENTAGE INCREASE IN BILL	AVERAGE PROPOSED PGA RATES	% OF AVERAGE MONTH USAGE OF 46.59 Therms	PRESENT MONTHLY GAS COST	RUCO PROP'D MONTHLY GAS COST	RUCO PROP'D MONTHLY INCREASE	RUCO PROP'D MONTHLY % INCREASE
10		\$ 0.6467	25.00%	\$ 18.03	\$ 19.03	\$ 1.00	5.52%
11			50.00%	\$ 29.06	\$ 29.93	\$ 0.86	2.97%
12			100.00%	\$ 51.13	\$ 51.73	\$ 0.60	1.18%
13			150.00%	\$ 73.19	\$ 73.53	\$ 0.34	0.47%
14			200.00%	\$ 95.25	\$ 95.33	\$ 0.08	0.08%

COST OF CAPITAL

LINE NO.	DESCRIPTION	(A) COMPANY AS FILED	(B) RUCO ADJUSTMENTS	(C) RUCO AS ADJUSTED	(D) PERCENT	(E) COST RATE	(F) WEIGHTED COST RATE
1	Short-term Debt	N/A	\$ -	\$ -	0.00%	0.00%	0.00%
2	Long-term Debt	\$ 98,859,000	\$ -	\$ 98,859,000	50.00%	6.23%	3.12%
3	Preferred Stock	N/A	\$ -	\$ -	0.00%	0.00%	0.00%
4	Common Equity	\$ 98,859,000	\$ -	\$ 98,859,000	50.00%	9.64%	4.82%
5	TOTAL CAPITAL	<u>\$ 197,718,000</u>	<u>\$ -</u>	<u>\$ 197,718,000</u>	<u>100.00%</u>		
6	WEIGHTED COST OF CAPITAL						<u>7.94%</u>

References:

- Column (A): Company Schedule D-1
- Column (B): Testimony, WAR
- Column (C): Column (A) + Column (B)
- Column (D): Column (C), Line Item / Total Capital (L5)
- Column (E): Testimony, WAR
- Column (F): Column (D) X Column (E)

EXHIBIT A

EXHIBIT A

American Gas Association
Expenditures Funded by Member Dues
For the Year Ended December 31, 2003

<u>Group Number</u>	<u>Group Name</u>	<u>Net Expense</u>		<u>Adjustments</u>	<u>G&A Allocation (3)</u>	<u>Adjusted Net Expense</u>	<u>% of Dues</u>
03	Public Affairs	5,466,314	1, 2	(2,086,787)	594,755	3,974,282	23.35%
03	Communications	-	2	2,135,112	543,776	2,678,888	15.74%
06, 16	Corporate Affairs and International	1,588,513		-	441,818	2,030,331	11.93%
05	General Counsel & Corp. Secretary	669,281	1	(36,677)	203,916	836,520	4.91%
09	Regulatory Affairs	1,126,488	1	984,182	339,860	2,450,530	14.40%
08	Marketing Development	160,846	1	-	101,958	262,804	1.54%
14	Operating & Engineering Services	2,727,138	1	(815,865)	1,121,540	3,032,813	17.82%
07	Policy & Analysis	1,373,570	1	419,920	543,776	2,337,266	13.73%
12	Industry Finance & Admin. Programs	655,825		-	152,937	808,762	4.75%
01,10,11	General & Administrative Expense	4,044,336		-	(4,044,336)	-	0.00%
Grand Total		<u>17,812,311</u>		<u>\$ 599,885</u>	<u>\$ -</u>	<u>\$ 18,412,196</u>	<u>108.17%</u>

Adjustments as a result of AGA/NARUC Oversight Committee Staff agreement.

- 1 Allocation of salaries and other expenses to benefiting group.
- 2 Breakout of communications portion of division expenses
- 3 G&A allocated on basis of average equivalent full-time employees during 2003.

EXHIBIT A

Calculation of Lobbying Expenses Pursuant to
Internal Revenue Code Section 162(e)

The American Gas Association incurred lobbying expenses, as defined under IRC Section 162, of 2.10% of total member dues during calendar year 2003.

IRC Section 162 Definition of Lobbying

- (e) Denial of deduction for certain lobbying and political expenditures
- (1) In general no deduction shall be allowed under subsection (a) for any amount paid or incurred in connection with -
 - (A) influencing legislation,
 - (B) participation in, or intervention in, any political campaign on behalf of (or in opposition to) any candidate for public office,
 - (C) any attempt to influence the general public, or segments thereof, with respect to elections, legislative matters, or referendums, or
 - (D) any direct communication with a covered executive branch official in an attempt to influence the official actions or positions of such official.
 - (2) Exception for local legislation - In the case of any legislation of any local council or similar governing body -
 - (A) paragraph (1)(A) shall not apply, and
 - (B) the deduction allowed by subsection (a) shall include all ordinary and necessary expenses (including, but not limited to, traveling expenses described in subsection (a)(2) and the cost of preparing testimony) paid or incurred during the taxable year in carrying on any trade or business -
 - (i) in direct connection with appearances before, submission of statements to, or sending communications to the committee, or individual members, of such council or body with respect to legislation or proposed legislation of direct interest to the taxpayer, or
 - (ii) in direct connection with communication of information between the taxpayer and an organization of which the taxpayer is a member with respect to any such legislation or proposed legislation which is of direct interest to the taxpayer and to such organization, and that portion of the dues so paid or incurred with respect to any organization of which the taxpayer is a member which is attributable to the expenses of the activities described in clauses (i) and (ii) carried on by such organization.
 - (3) Application to dues of tax-exempt organizations - No deduction shall be allowed under subsection (a) for the portion of dues or other similar amounts paid by the taxpayer to an organization which is exempt from tax under this subtitle which the organization notifies the taxpayer under section 6033(e)(1)(A)(ii) is allocable to expenditures to which paragraph (1) applies.
 - (4) Influencing legislation - For purposes of this subsection -
 - (A) In general The term "influencing legislation" means any attempt to influence any legislation through communication with any member or employee of a legislative body, or with any government official or employee who may participate in the formulation of legislation.
 - (B) Legislation - The term "legislation" has the meaning given such term by section 4911(e)(2).
 - (5) Other special rules
 - (A) Exception for certain taxpayers - In the case of any taxpayer engaged in the trade or business of conducting activities described in paragraph (1), paragraph (1) shall not apply to expenditures of the taxpayer in conducting such activities directly on behalf of another person (but shall apply to payments by such other person to the taxpayer for conducting such activities).
 - (B) De minimis exception
 - (i) In general Paragraph (1) shall not apply to any in-house expenditures for any taxable year if such expenditures do not exceed \$2,000. In determining whether a taxpayer exceeds the \$2,000 limit under this clause, there shall not be taken into account overhead costs otherwise allocable to activities described in paragraphs (1)(A) and (D).
 - (ii) In-house expenditures for purposes of clause (i), the term "in-house expenditures" means expenditures described in paragraphs (1)(A) and (D) other than
 - (I) payments by the taxpayer to a person engaged in the trade or business of conducting activities described in paragraph (1) for the conduct of such activities on behalf of the taxpayer, or
 - (II) dues or other similar amounts paid or incurred by the taxpayer which are allocable to activities described in paragraph (1).
 - (C) Expenses incurred in connection with lobbying and political activities - Any amount paid or incurred for research for, or preparation, planning, or coordination of, any activity described in paragraph (1) shall be treated as paid or incurred in connection with such activity.
 - (6) Covered executive branch official - For purposes of this subsection, the term "covered executive branch official" means -
 - (A) the President,
 - (B) the Vice President,
 - (C) any officer or employee of the White House Office of the Executive Office of the President, and the 2 most senior level officers of each of the other agencies in such Executive Office, and
 - (D) (i) any individual serving in a position in level I of the Executive Schedule under section 5312 of title 5, United States Code, (ii) any other individual designated by the President as having Cabinet level status, and (iii) any immediate deputy of an individual described in clause (i) or (ii).
 - (7) Special rule for Indian tribal governments - For purposes of this subsection, an Indian tribal government shall be treated in the same manner as a local council or similar governing body.
 - (8) Cross reference - For reporting requirements and alternative taxes related to this subsection, see section 6033(c).